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Supreme Court, U.S.
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IN THE

Supreme Court of the United States

October Term, 1970

V.E.B. CARL ZEISS, JENA; STEELMASTERS, INC.; ERCONA CORPORATION,

Petitioners,

v.

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Respondents.

APPENDICES

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UNITED STATES COURT OF APPEALS

FOR THE

SECOND CIRCUIT

At a Stated Term of the United States Court of Appeals, in and for the Second Circuit, held at the United States Courthouse in the City of New York, on the second day of November one thousand nine hundred and seventy.

Present: HON. J. EDWARD LUMBARD,
Chief Judge

HON. STERRY R. WATERMAN,
Circuit Judge

HON. WILLIAM J. JAMESON,
District Judge

Carl Zeiss Stiftung, doing business under the name and style of Carl Zeiss; and Zeiss Ikon A.G., Plaintiffs-Appellees,	:	
v.	:	62 Civ. 850
V.E.B. Carl Zeiss, Jena; Steelmasters, Inc.; and Ercona Corporation, Defendants-Appellants,	:	
Exakta Camera Company, Inc.; Camera Specialty Company, Inc. and Carl Zeiss Inc., Defendants.	:	

Appeal from the United States District Court for the Southern District of New York.

This cause came on to be heard on the transcript of record from the United States District Court for the Southern District of New York, and was argued by counsel.

ON CONSIDERATION WHEREOF, it is now hereby ordered, adjudged, and decreed that the judgment of said District Court be and it hereby is modified and as so modified said judgment be and it hereby is affirmed in accordance with the opinion of this court.

A. DANIEL FUSARO
Clerk

A true copy

/s A. Daniel Fusaro
Clerk

U.S. District Court
Filed Jan. 6, 1971
S.D. OF N.Y.

Docketed as a Judgment #71,209
on January 7, 1971

U.S. District Court
Filed
Apr. 1, 1969
S.D.N.Y.

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

- -x

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Plaintiffs,

-against-

V.E.B. CARL ZEISS, JENA; STEEL-MASTERS, INC.; ERCONA CORPORATION; EXAKTA CAMERA COMPANY, INC.; and CAMERA SPECIALTY COMPANY, INC.,

Defendants,

CARL ZEISS, INC.,

Additional Defendant on Counterclaims.

- -x

62 Civ. 850

ORDER AND JUDGMENT

The separate issues in the above-entitled action (presented by the complaint, the denials set forth in paragraphs 1 through 61 of the amended answers of defendants VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation, the defenses and counterclaims set forth in paragraphs 62 through 114 of the amended answer of defendant VEB Carl Zeiss Jena, paragraphs 62 through 119 of the amended answer of defendant Ercona Corporation, and paragraphs 62 through 83 of the amended answer of Steelmasters, Inc., the defenses set forth in paragraphs 115 through 121 of the amended answer of defendant VEB Carl Zeiss Jena and paragraphs 120 through 136 of the amended answer of defendant Ercona Corporation, and the defenses to said counterclaims as set forth in the

amended replies of plaintiffs and Carl Zeiss, Inc.), which were heretofore severed from the remaining issues herein, having been considered by the Court upon the pleadings, the evidence presented at the trial and the briefs submitted by counsel for the parties, and the Court having filed its opinions, findings of fact and conclusions of law with respect thereto on November 7, 1968, and March 12, 1969,

IT IS ORDERED, ADJUDGED AND DECREED as follows:

1. Plaintiff CARL ZEISS STIFTUNG, trading under the name and style of CARL ZEISS (hereinafter "Carl Zeiss"), is the owner of the United States trade names "Zeiss" and "Carl Zeiss" and the United States trademarks "Carl Zeiss", "Carl Zeiss" in a distinctive lens frame, the distinctive lens frame alone, "Zeiss" and the monogram "CZ" and is entitled to the sole and exclusive right to use such names and marks in commerce within and with the United States and to prevent others from using in the United States such names and marks and all other names and marks of which the words "Carl Zeiss", "Zeiss", the initials "CZ" or the distinctive lens frame form any part.

2. Plaintiff ZEISS IKON AG is the owner of the United States trade name "Zeiss Ikon" and the United States trademarks "Zeiss Ikon" and "Zeiss Ikon" in a distinctive lens frame and is entitled to the sole and exclusive right to use such name and marks in commerce within and with the United States.

3. None of the defendants, either jointly or severally, has any right, title or interest in or to, or the right to use, any of the United States trade names "Zeiss",

"Carl Zeiss" or "Zeiss Ikon" or any of the United States trademarks referred to in paragraphs 1 and 2 hereof.

4. Since at least 1953 defendants VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation have during various periods infringed each of the trademarks of plaintiffs, i.e., "Carl Zeiss", "Carl Zeiss" in a distinctive lens frame, the distinctive lens frame alone, "Zeiss", the monogram "CZ", "Zeiss Ikon" and "Zeiss Ikon" in a distinctive lens frame, in the United States and have unfairly competed with plaintiffs through the use of the trade names "Optik Carl Zeiss Jena VEB" and "VEB Carl Zeiss Jena" and trademarks consisting of the words "Carl Zeiss Jena" in a distinctive lens frame, the distinctive lens frame alone and the letters "CZ" and "CZJ" in trade within and with the United States.

5. Since in or about 1953 defendants VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation have, in violation of § 43(a) of the Lanham Act, 15 U.S.C. 1125(a), from time to time falsely described and falsely designated the origin of goods imported by them into the United States and sold in United States commerce as being goods produced by plaintiff Carl Zeiss or its licensee when in fact such goods were produced by defendant VEB Carl Zeiss Jena, a nationalized East German concern, which has no legal or other connection with plaintiff Carl Zeiss or any of its affiliated firms.

6. Each plaintiff is entitled to enforcement of its rights in its trade names and trademarks against the defendants and to the relief demanded against the defendants, including damages, defendants' profits and an injunction.

7. Defendants and each of them, their officers, agents, servants, employees, attorneys, and privies, and all those persons in active concert or participation with them who receive actual notice of this order and judgment by personal service or otherwise, are permanently enjoined and restrained from importing into, or selling, distributing or offering for sale in, the United States, either individually or in concert with others, any products (other than products manufactured by plaintiffs) bearing any of the names or trademarks of plaintiffs, i.e., "Carl Zeiss", "Carl Zeiss" in a distinctive lens frame, the distinctive lens frame alone, "Zeiss", the monogram "CZ", "Zeiss Ikon" and "Zeiss Ikon" in a distinctive lens frame, or any other marks of which the words "Carl Zeiss", "Zeiss", the initials "CZ" or the distinctive lens frame form any part, or any colorable imitations or variations thereof, or using any such names or marks in the United States to refer to themselves or any of their products in any advertising or promotional material or correspondence or communication, or in any other manner.

8. Defendants, and each of them, their officers, agents, servants and employees are directed to deliver up for destruction all labels, signs, prints, packages, wrappers, receptacles, advertising and other such material in their custody or possession in the United States bearing or containing as a reference to defendants the designations or names "Optik Carl Zeiss Jena VEB", "VEB Carl Zeiss Jena" or any designations or names containing the words "Zeiss" or "Carl Zeiss" or bearing or containing as a reference to

defendants' products trademarks consisting of the words "Carl Zeiss Jena", "Carl Zeiss Jena" in a distinctive lens frame, the distinctive lens frame alone, the initials "CZ" or "CZJ", "Zeiss Ikon" or any trademarks of which the words "Carl Zeiss" or "Zeiss" or the initials "CZ" or "CZJ" or the distinctive lens frame form any part, or bearing or containing as a reference to defendants or their products any reproduction, counterfeit, copy or any colorable imitation thereof, and all plates, molds, matrices or other means of making the same in their custody or possession in the United States.

9. Defendants Ercona Corporation, its officers, agents, servants, employees and attorneys are permanently enjoined and restrained from prosecuting in the United States Patent Office oppositions to applications bearing Serial Nos. 36,037, 36,035, 657,816 and 49,329 for registration of the trademarks "Zeiss", the words "Carl Zeiss" in a distinctive lens frame and "Zeiss Ikon" filed with the United States Patent Office by plaintiffs, and from prosecuting in the United States Patent Office petitions for cancellation of Registrations Nos. 722,796 and 727,470, issued, respectively, to plaintiff Carl Zeiss on October 17, 1961 and to plaintiff Zeiss Ikon on February 13, 1962.

10. The United States Commissioner of Patents is hereby directed to register in the name of plaintiff Carl Zeiss the trademarks "Zeiss" and the words "Carl Zeiss" in a distinctive lens frame, and in the name of plaintiff Zeiss Ikon the trademarks "Zeiss Ikon", for which registrations the respective plaintiffs have heretofore filed applications

bearing Serial Nos. 36,037, 36,035, 657,816 and 49,329 and to dismiss the oppositions and petitions for cancellation filed by defendant Ercona Corporation and referred to in paragraph 9 hereof.

11. The defenses contained in the amended answers of defendants VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation, and all counterclaims contained in said amended answers with the exception of those set forth in paragraphs 115 through 119 of the amended answer of defendant VEB Carl Zeiss Jena and paragraphs 119 through 124 of the amended answer of defendant Ercona Corporation, are dismissed on the merits, except insofar as they pray that the rights of the parties be declared.

12. Each of the defendants is directed to file with the Court and serve on plaintiffs' attorneys, within sixty (60) days after the service on the defendants' attorneys of a copy of this order and judgment, a report in writing under oath setting forth in detail the manner and form in which such defendant has complied with this order and judgment.

13. The Court expressly determines, pursuant to Rule 54(b) of the Federal Rules of Civil Procedure that there is no just reason for delay in entering judgment on the separate issues heretofore tried and decided, and the Clerk is directed to make entry of this judgment in accordance with Rule 58 of the Federal Rules of Civil Procedure.

14. The remaining issues in this action raised by plaintiffs' claims for damages and an accounting of defendants' profits and by the counterclaims set forth in paragraphs 115 through 119 of the amended answer of defendant

VEB Carl Zeiss Jena and in paragraphs 120 through 124 of the amended answer of Ercona Corporation shall be deferred for subsequent trial.

15. Plaintiffs may tax the cost to which they are entitled as of the date of the entry of this judgment; further taxation of costs shall await the entry of a further judgment following the trial of the remaining issues.

16. Jurisdiction is retained by this Court for the purpose of the subsequent trial of the remaining issues in this action and also for the purpose of enforcing compliance with this judgment and punishing any violation thereof.

Dated: New York, N.Y.
April 1, 1969

/s Walter R. Mansfield
U. S. D. J.

Judgment Entered 4/1/69
/s John Livingston
Clerk

33676

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

----------X

Carl Zeiss Stiftung, doing business under the name and style of Carl Zeiss; and Zeiss Ikon A.G.,

Plaintiffs-Appellees,

v.

V.E.B. Carl Zeiss, Jena; Steelmasters, Inc. and Ercona Corporation,

Defendants-Appellants,

Exakta Camera Company, Inc., et al.,

Defendants.

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A petition for a rehearing containing a suggestion that the action be reheard in banc having been filed herein by counsel for the appellants, and no active circuit judge having requested that a vote be taken on said suggestion,

Upon consideration thereof, it is

Ordered that said petition be and it hereby is denied.

/s J. EDWARD LUMBARD

Chief Judge

December 16, 1970

33676

UNITED STATES COURT OF APPEALS
SECOND CIRCUIT

----------X

Carl Zeiss Stiftung, doing business under the name and style of Carl Zeiss; and Zeiss Ikon A.G.,

Plaintiffs-Appellees,

v.

V.E.B. Carl Zeiss, Jena; Steelmasters, Inc.; and Ercona Corporation,

Defendants-Appellants,
Exakta Camera Company, Inc., et al.,

Defendants.

----------X

A petition for a rehearing having been filed herein by counsel for the appellants,

Upon consideration thereof, it is

Ordered that said petition be and it hereby is DENIED.

/s J. EDWARD LUMBARD

/s STERRY R. WATERMAN, Circuit Judges

/s WILLIAM J. JAMESON, District Judge

December 16, 1970

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 767—September Term, 1969.

(Argued May 5, 1970 Decided November 2, 1970.)

Docket No. 33676

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Plaintiffs-Appellees,

—against—

VEB CARL ZEISS JENA; STEELMASTERS, INC.; ERCONA CORPORATION,

Defendants-Appellants.

Before:

LUMBARD, *Chief Judge,*
WATERMAN, *Circuit Judge,* and
JAMESON, *District Judge.**

Appeal from a judgment of the United States District Court for the Southern District of New York, Walter R. Mansfield, *Judge,* adjudging that plaintiffs-appellees are the owners and entitled to the exclusive use of certain trade names and trademarks in the United States; enjoining defendants-appellants from further use of the names and marks; and providing for damages for unlaw-

* Senior District Judge of the District of Montana, sitting by designation.

ful infringement. Judgment modified by deleting provision for damages and affirmed.

MILBANK, TWEED, HADLEY & MCCLOY, New York, New York (William E. Jackson, Isaac Shapiro, Walter J. Derenberg, Von Maltitz, Derenberg, Kunin & Janssen, of counsel), *for plaintiffs-appellees.*

BOTEIN, HAYS, SKLAR & HERZBERG, New York, New York (Harry I. Rand, Donald E. Nawi, David Kremen of counsel), *for defendants-appellants.*

JAMESON, *District Judge*:

This trademark infringement action involves the ownership and use in the United States of the "Zeiss" and "Zeiss Ikon" names and marks on optical and mechanical precision instruments. Plaintiffs-appellees are the Carl Zeiss Stiftung (or Foundation) doing business under the name of Carl Zeiss, located in Heidenheim, West Germany, and its subsidiary, Zeiss Ikon A.G., located in Stuttgart, West Germany. The defendants-appellants are VEB[1] Carl Zeiss Jena, located in East Germany, and two of its distributors in the United States, Steelmasters, Inc., and Ercona Corporation.[2]

Appellees claim ownership and the right to exclusive use of the trademarks as a successor of the original Carl Zeiss

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1 VEB, or Volkseigener Betrieb, means "Peoples-Owned Enterprise."

2 Exakta Camera Company, Inc. and Camera Specialty Co., Inc., named as defendants, did not participate in the proceeding in the district court and are not parties on this appeal.

Stiftung (Foundation) created in Jena in 1889. Appellants claim the right to exclusive use, or in the alternative the right to concurrent use, as the assignees and licensees of the Jena Foundation.

The district court held that the appellee Heidenheim Foundation was identical to the Carl Zeiss Stiftung and was therefore entitled to the exclusive use of the "Zeiss" name and trademarks in the United States; that Zeiss Ikon A.G. was entitled to the exclusive use of the "Zeiss Ikon" name and mark in the United States; and that since 1953 appellants had infringed those trademarks and had violated Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a), by describing and designating goods they had imported from Jena and sold in the United States as goods produced by a licensee of the Zeiss Stiftung. The court rejected the defenses of laches, acquiescence and abandonment; held that the appellants were barred from asserting any claim to ownership of the "Zeiss" name and marks by provisions of Section 5(b) of the Trading With The Enemy Act (50 U.S.C. App. §1 et seq.) and regulations promulgated thereunder (8 C.F.R. §507.46); and struck the antitrust defense asserted by the appellants.

Statement of Facts with Respect to Ownership and Use of Trademarks

The basic facts as set forth in the court's formal findings and supplemental discussion with respect to the ownership and use of the trademarks[3] may be summarized as follows:

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3 Following a six week trial on the issues relating to the ownership and use of the trademarks, the court made 481 findings of fact and filed an opinion on November 7, 1968. That portion of the opinion relating to the applicable law is reported in 293 F. Supp. 892, with the notation that, "At the court's request the factual background, because of its length, is not published." The court made 27 additional findings

In 1846 Carl Zeiss established a workshop for the manufacture of optical and mechanical precision instruments in Jena in the Grand Duchy of Saxe-Weimar-Eisenach.[4] In 1875, Dr. Ernst Abbe, a mathematician and physicist teaching at the University of Jena, joined Zeiss as a partner. In 1884, with Otto Schott, they organized the companion Schott Works for the manufacture of optical and other types of glass.

In 1889 the Carl Zeiss Stiftung was created in Jena with the required approval of the Duchy of Saxe-Weimar-Eisenach. In 1891 all assets of the Zeiss firm were conveyed to the Carl Zeiss Stiftung (FF 10) and since then the Foundation has been the sole owner of the Zeiss firm (FF 11). JA 817. In 1896 a new basic governing instrument designated a "Statute" was prepared and approved.[5] The statute was amended from time to time, the last time in 1941.

The Carl Zeiss Foundation was not charitable or public in nature, but was established as a private foundation for the purpose of owning and operating the Zeiss optical busi-

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of fact on the issues raised by appellants' antitrust counterclaim and filed an opinion on March 12, 1969, which is reported at 298 F. Supp. 1309. In this opinion FF refers to formal findings of fact on the issues relating to use of the trademarks and JA to joint appendix.

4 In 1920 the Grand Duchy of Saxe-Weimar-Eisenach was dissolved and incorporated into the newly established Land of Thuringia, a state in the German Federal (Weimar) Republic. In 1952, the Land of Thuringia was dissolved, and since then Jena has been located in the District of Gera, a new political subdivision of the German Democratic Republic, which had been established in October, 1949.

5 The Statute provided that the domicile of the Foundation should be Jena (Section 3), that this provision could not be amended or rendered inoperative (Section 121), and that its Works (including the Zeiss and Schott Works) should not be transferred outside the immediate neighborhood of Jena (Section 39). Upon dissolution one half of the "remaining value of assets" was to be distributed between Jena and a neighboring community, the other half to go to the University of Jena (Section 116).

ness for profit.[6] The profits were to be used primarily to maintain, develop and increase the business enterprises and to provide economic benefits for the workers. Any surplus was to be used for promotion of technical knowledge and science outside of the works, and for participation in community organizations and measures intended to help the working population in Jena, where the works were then located.

The Zeiss and Schott firms were each under the direction of a separate "Board of Management." A "Special Board" was to administer the nonindustrial assets of the Foundation and to supervise the noncommercial activities. A "Foundation Deputy" appointed by the Special Board was to represent it on the Boards of Management of the individual commercial enterprises.[7]

Between 1891 and 1945 the Foundation acquired interests in numerous other commercial enterprises, including the Schott firm and Zeiss Ikon A.G. Since the early 1900s (with interruptions during the two World Wars) the Zeiss

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6 As set forth in the district court's discussion of the facts: "[A] private 'Stiftung,' or Foundation, is a legal entity or juristic person with some attributes similar to those of a corporation under American law, including the capacity to own property, enter contracts, engage in business activities, sue and be sued, etc. It differs from a stock corporation (known as an 'AG' under German law) in that it has no stockholders. On the other hand, the absence of stock ownership does not mean that it is therefore a public, non-profit, charitable or eleemosynary enterprise. It is more in the nature of a trust to which the attributes of separate legal existence as an entity are extended." JA 969.

7 Each Board of Management was to consist of three or four members appointed for a fixed period or for life. Only an employee having a lifetime contract of employment was eligible for appointment. Two members of each Board were appointed by the Special Board as the "Mandatory" and "Deputy Mandatory." Membership on a Board could terminate only by voluntary resignation accepted by the Special Board, expiration of a fixed period of appointment, or termination or cancellation of the lifetime employment contract, which could be effected only for gross violation or neglect of duty or disreputable behavior.

firm has sold high quality optical and other scientific instruments in the United States under the Zeiss name and the trademarks "Zeiss," "Carl Zeiss Jena," "C.Z." and others. Zeiss Ikon has sold photographic and related equipment in the United States since 1926 under the "Zeiss Ikon" and other names and marks.[8]

Beginning on April 13, 1945 the city of Jena was occupied by the Allies. It was first occupied by the Armed Forces of the United States, who remained for two and one-half months, relinquishing control in July, 1945 to the Soviet Military Forces, after it was decided that Thuringia was to be part of the Soviet Zone, pursuant to the Allied statement on Zones of Occupation, issued on June 5, 1945, which divided Germany into four military occupation zones.

At the time of Germany's surrender, the Zeiss Foundation deputy was Professor Abraham Esau, and its Board of Management consisted of Professor Walter Bauersfeld, Paul Henrichs, Dr. Heinrich Kueppenbender, and Professor Georg Joos. The Schott Board consisted of Dr. Erich Schott, Richard Hirsch and Mr. Henrichs. The administrative offices and principal manufacturing establishments of both firms were in Jena, but Zeiss also had branch establishments in Berlin, Cologne, Hamburg, Vienna, and a number of foreign countries, all outside what was to become the Soviet Zone, and Schott had a branch factory in Landshut, Bavaria, which was within the American Zone.[9]

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8 The use of the trade names and marks by both parties in the United States is set forth in more detail later herein.

9 The total number of employees of the various enterprises in which the Carl Zeiss Foundation had an interest was approximately 45,000 when the American Armed Forces first occupied Jena. Approximately 15,000 were employed in Jena and its vicinity, and 30,000 at outside locations. The employees in the plant at Jena included 2,000 foreign workers and 3,000 conscripted laborers. By June, 1945 the 5,000 non-

In mid-June, 1945, when it was evident that Jena was shortly to become a part of the Soviet Zone, American Military authorities evacuated all members of the Boards of Management of the Zeiss and Schott firms and approximately 122 top scientific, production and administrative personnel, to Heidenheim, Wuerttemburg, in the United States Zone of occupation, where they established a factory to assist in the continuing war effort against Japan. The management and scientists did not depart voluntarily but under military orders.

The members of the Board of Management of Zeiss designated three Zeiss employees, Dr. Friedrich Schomerus, Viktor Sandmann, and Dr. Hugo Schrade, to act during their absence. The Board of Schott made a similar designation of three of its employees.[10] Appellants contend that the members of the Boards orally resigned. On conflicting testimony the district court found that the departing Boards of Management did not resign, "but arranged with three trusted employees to exercise their functions during the Board's absence on the understanding that upon the Board's return it would assume exercise of its management functions in Jena."[11] (FF 82). JA 839.

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regular workers had left the employ of the Zeiss Firm (FF 49, 50, 51). JA 830-831.

10 Esau and all members of both Boards had been members of the Nazi party. Their designees had not been identified with the Party. Each designee had been employed for over ten years but did not have a lifetime contract. Lifetime contracts of employment were executed by Schomerus and Schrade.

Kueppenbender, Schott and Schrade testified at the trial. All remaining members of all Boards were then deceased.

11 The district court said in part: "After carefully reviewing the evidence and appraising the witnesses (including Kueppenbender, Schott and Schrade), we find that the credible evidence establishes that while the Zeiss Board members evacuated to Heidenheim granted broad management powers to Schomerus, Sandmann and Schrade * * * and later

On June 9, 1945 the United States Armed Forces attempted to set up a provincial government and "purported to appoint" Herman Brill as Prime Minister of Thuringia. Brill in turn appointed Dr. Walter Wolf as Minister of Education (FF 66). There is no evidence, however, that the Armed Forces of the United States had authority to organize a new provincial government (FF 67). Under the agreement of June 5, 1945 Thuringia had already been allotted to the USSR for occupation, and the agreement provided for the exercise of governmental authority by each Commander-in-Chief only "in his own zone of occupation" (FF 68). JA 834-835.

On July 1, 1945 the military forces of the United States turned over control of Thuringia (including Jena) to the Soviet Armed Forces, who continued Dr. Wolf as Minister of Education for Jena, which had the effect under the statute of constituting him the Zeiss Special Board. Wolf purported to revoke the appointment of Professor Esau as Foundation Deputy and to name Dr. Arno Barth in his place.

Some time after the deportation and when it became apparent that the enforced absence of the Zeiss and Schott Boards of Management from Jena would be longer than expected, a dispute arose over management between the boards in the American Zone and their designees in the Soviet Zone. On conflicting evidence, and after careful analysis of all letters exchanged between the two groups

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even agreed temporarily to refrain from exercising their own powers as Board members and to permit the latter to hold themselves out as the 'Board of Management' in order to appease Soviet occupation authorities, the Zeiss Board never resigned." JA 987-988. The court rejected Schrade's testimony because of his "obvious interest and his demeanor as a witness" and because it was "inconsistent with his prior testimony on the subject." JA 989.

and testimony relating to the intention of the parties, the district court held that the Heidenheim groups remained as the official and legal boards, although they had in the exchange of letters acknowledged that the Jena caretakers were the sole responsible management in Jena.[12]

In December, 1945 the Soviet Military authorities sequestered the assets of Zeiss firm as reparations, the plants having supplied equipment for the Nazi military effort. Notice was given to the Zeiss Works, and Schrade was appointed sequestrator. Commencing on October 22, 1946 the Zeiss and Schott plants in Jena were almost totally dismantled and 94% of all plant equipment and more than 300 employees were transported to the Soviet Union. Under Order 124, the trademarks used in connection with the sequestered assets were included in the sequestration (FF 226). JA 899.

Thuringia authorized a partial rebuilding of the Jena plants. Between 1945 and 1948 plants for the manufacture of Zeiss products were continued and established in the Western Zones.[13] The Jena group continued to manage

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12 The court's findings on this issue are summarized in its discussion of the facts as follows:

"The makeshift arrangements served temporarily to appease the Russians. The Jena management, although but caretakers, maintained its appearance as the Boards of Management to the Russians, thereby avoiding removal by the Soviet occupation authorities and replacement by communist functionaries, but secretly recognized the Boards in Heidenheim as the official management by not requiring a resignation, by not pursuing their removal, and by assuring them that upon their return to Jena they would resume actual management of Zeiss business in the Soviet Zone. In the meantime the Boards in Heidenheim continued to lend themselves to the facade for the purpose of avoiding Soviet seizure by acting in the West under the powers of attorney from Jena rather than asserting their true powers as the Board." JA 1008.

13 In the summer of 1946 the Zeiss group obtained space in a factory in Oberkochen. In October, 1946 a limited liability company was organized in Heidenheim under the name of "Opton GmbH." Its prin-

Foundation interests in the Soviet Zone and to hold itself out as the Boards of Management. Foundation interests in the Western Zones were managed by the Heidenheim group under power of attorney from the Jena group, even though the Heidenheim group considered itself responsible for those interests as the Board of Management (FF 180). JA 882. Heidenheim and Landshut became in fact new centers of the Foundation, equal in importance to Jena in the administration of the Foundation's interests (FF 235). JA 901.

In early 1948 the Expropriation Commission for Thuringia, established by the Soviet authorities, voted to include Zeiss and Schott on a list of business enterprises whose sequestered assets were to be expropriated (FF 237), and on April 17, 1948 the Soviet Military Administration issued Order No. 64 ratifying this action (FF 239). JA 902. In February, 1948 the Soviet Military Administration had created the German Economic Commission to supervise the establishment of a new Socialist economy in the Soviet Zone (FF 240). This Commission issued two decrees providing that trademarks were to be included among sequestered assets which were expropriated, unless expressly excepted (FF 241). JA 902-903.

Decrees entered June 1, 1948 by the Government of the Land of Thuringia confirmed the expropriation of the Zeiss and Schott Works, including assets which had been sequestered in accordance with Order No. 124. There was no evidence that any exceptions of trademarks had been made (FF 242-244). JA 903. After the expropriations the Jena managements no longer had any function to perform

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cipal assets consisted of the Oberkochen production facilities (FF 200-203). JA 889-890.

with respect to the Foundation enterprises Zeiss and Schott (FF 249). JA 904.

Since the expropriation and transfer to state ownership, VEB has been the instrumentality through which the East German Government has operated the expropriated Zeiss plant in Jena (FF 264-269). JA 908-909.

Neither the nationalization decrees nor the deed or expropriation purported to terminate the existence of the Zeiss Stiftung. In discussing its finding that the Foundation's capacity to function was destroyed, the district court said in part:

> "Thus the Foundation's capacity to function in the Soviet Zone in accord with the Abbe Statute was completely destroyed by the Soviet expropriation decree, which finally and unequivocally stripped it of its commercial enterprises, which were the source of its existence in Jena, thereby working a basic change in substance, not merely one in form. Beginning in June 1948 and continuing until May 1951 the Zeiss and Schott enterprises in Jena were transferred from the Foundation to the V.V.B. Optik, an association of peoples-owned enterprises engaged in manufacture of precision mechanical and optical instruments. On November 30, 1948 the firm name Carl Zeiss was cancelled in the Commercial Register of the County Court of Jena, and a new entry was made stating that the firm was the 'property of the people,' in line with the Soviet authorities' socialization of the East. This was followed by a further entry on November 20, 1949 changing the name of the firm to 'Optik Carl Zeiss Jena VEB,' meaning 'peoples-owned enterprise.' In May, 1951 the Zeiss and Schott enterprises were separated by the German Democratic Republic from V.V.B. Optik

association, and converted into independent V.E.B. entities under the direct supervision of the Ministry of Machine Construction in East Berlin, subject to control by other East German governmental agencies. Appointed by East Germany as the 'Works Director' of both VEB enterprises, Schrade was responsible solely to the Ministry for Machine Construction, and not to the Foundation or to any Board of Management, Deputy, or Special Board." JA 1014-1015.

The Foundation had industrial and other assets located outside the Soviet Zone of occupation valued at more than thirty million marks, which could not be reached by the expropriation decrees. The district court found that the existence and operation of these commercial assets in the West could not serve to prolong the Foundation's existence in the East since, as far as Soviet authorities were concerned, the assets had been expropriated and no longer belonged to the Foundation but represented state-owned properties.[14]

On June 16, 1948 the German Economic Commission adopted a resolution recognizing the "existence and operation of the Carl Zeiss Foundation" and directed that the rights and duties of the "people's-owned" Zeiss and Schott enterprises should be established in a "new version to be drawn up of the Statute of the Foundation" and providing that until the new version was prepared "the powers of all the governing bodies of the Foundation will be exercised

14 The court said further: "The properties in Jena were thenceforth not to be managed by a Deputy and Boards of Management but by direction of the State, which specified what funds would be appropriated and furnished for their continued operation. The Abbe Statute never authorized a state-directed and state-controlled eleemosynary institution. On the contrary, Abbe expressly stated he did *not* intend such an enterprise." JA 1017.

by a Foundation Commissioner to be appointed by the German Economic Commission." No new "version" was ever prepared and approved. Although a Foundation Commissioner was appointed, he never functioned. JA 1020.

On July 30, 1948, following the expropriation decrees, the Board at Heidenheim, after conferring with legal counsel, applied to the Minister of Education of Wuerttemberg for a decree creating a new domicile for the Foundation in Heidenheim. On February 23, 1949 Wuerttemberg's Minister of State issued a decree amending the Foundation's statute to create a new domicile in Heidenheim,[15] and providing that the affairs of the Foundation should be administered by Messrs. Bauersfeld, Kueppenbender and Henrichs of the Zeiss Board pursuant to section 114 of the Statute.[16] The district court found that "The Wuerttemberg decree of February 23, 1949 gave legal recognition to the Zeiss Board's identity as the official Board and to its *de facto* control and administration of the Foundation's assets in the West."[17] JA 1030.

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15 The bases for the new domicile are summarized in the district court's discussion of the facts as follows: (1) the Zeiss Foundation was a German federal entity; (2) Germany, despite its occupation by the four Allied Powers remained a single unitary sovereign state being administered by the occupants pursuant to Article 43 of the Hague Regulations; (3) Article 87 of the German Civil Code authorized creation of an additional domicile, or a change in domicile, for the Foundation because the Soviet expropriation made it impossible for it to fulfill its purposes in the East by preventing it from conducting its essential commercial operations; and (4) Wuerttemberg, as a member state of the German Federal Government, had the power to effectuate such implementation of Article 87. JA 1029-1030.

16 Notice of this decree apparently did not come to the attention of VEB in Jena until sometime in November, 1951, when it was apprised of the decree in connection with a proceeding pending in the German Patent Office in Munich (FF 310). JA 921.

17 A further Administrative Decree was issued in May 1954 by the Minister of Education of Wuerttemberg amending the Statute of the Carl Zeiss Foundation to eliminate Jena as a legal domicile (FF 311).

In May, 1951 East Germany's Minister of Machine Construction directed the President of Thuringia to appoint a new "Foundation" Deputy and new "organs" of "Carl Zeiss Stiftung," pointing out the urgency occasioned by threatened litigation by the West. On June 27, 1951 the Minister of Education wrote a letter to five persons advising them that they were appointed "as organs of the Carl Zeiss Foundation for the management of industrial activities * * *, such appointment to take effect June 27, 1945." JA 1033-1034. There was testimony from legal experts, however, that as far as East Germany was concerned the Foundation had ceased to exist after expropriation of its commercial enterprises there.[18] In July, 1951 the practice of holding Foundation meetings, which had been discontinued in June, 1948, was resumed.

Although appellants argue that even though the Zeiss and Schott Works were nationalized, the Stiftung in Jena has remained alive, we agree with the district court "that the so-called 'Foundation' which the East German government sought to 'revive' or 'warm up' in 1951 is not the Foundation established by Dr. Abbe and is not identifiable with, or a successor to, that Foundation."[19] JA 1035.

JA 921-922. On August 3, 1967 the Parliament of the Federal Republic of Germany adopted legislation purporting to confirm the validity of measures taken to transfer such domiciles to West Germany (FF 320). JA 923-924.

18 This testimony was given by "Richter, an experienced German lawyer who was then head of the legal department of the East Germany Ministry, and Schacht, another trained German lawyer acting as a Jena VEB's counsel in the matter." JA 1034.

19 In its discussion of the facts, the district court continued: "It represents a pseudo-type organization, deliberately established by East Germany as a sham or facade for litigation purposes, with a view to trying to create a color of right to assets outside of East Germany, including Zeiss trademarks. * * * The record reveals beyond any serious doubt

Appellee Zeiss Ikon A.G. was organized in 1926 and registered in the Commercial Register of the County Court in Dresden, Saxony, Germany, and has been engaged in the manufacture and sale of photographic equipment and related goods, using the trademark "Zeiss Ikon." In June, 1947 the Ministry for Economics and Economic Planning of the Government of the Land of Saxony, located within the Soviet Zone, expropriated the enterprise Zeiss Ikon A.G. of Dresden without compensation, effective July 1, 1946. The "Zeiss Ikon" trademarks were included in the expropriation (FF 330-336). JA 926-927.

On March 3, 1948 at a special meeting of stockholders in Stuttgart, in the American Zone, a resolution was adopted transferring the domicile of Zeiss Ikon A.G. from Dresden to Stuttgart. The bylaws then in effect provided that meetings of stockholders could be held in Dresden, Berlin, Stuttgart, or Jena. In a judgment rendered February 14, 1958 the Federal Supreme Court of West Germany upheld the validity of the transfer of domicile from Dresden to Stuttgart. The district court found that the transfer of domicile of Zeiss Ikon A.G. was legal under German law and that appellee Zeiss Ikon A.G. is identical with the corporation of that name organized in 1926 and domiciled in Dresden until its expropriation in 1947. (FF 338-343). JA 927-928.

At a meeting in October, 1949 at which Bauersfeld, Kueppenbender, Henrichs, Hirsch, Schott, David and Sandmann

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that following the Soviet expropriation and break-up of the Foundation in 1948, the East German authorities had no intention of ever permitting its resurrection as a viable entity conforming to the original Statute, but they considered it dead. This is vividly confirmed by the fact that the June 27, 1951 appointment of the so-called 'organs' for the Zeiss and Schott Works were expressly retroactive to June 27, 1945." JA 1035-1036.

were present, "the Heidenheim management made it clear that in their view only they and not the expropriated works in the East were entitled to the Zeiss name and marks and that they were not willing to give up the good will of the firms symbolized by the trade names and trademarks. They offered, however, to permit the VEB in Jena to use the marks on the basis of a license agreement." (FF 346-347). JA 928-929.

On February 17, 1950 Messrs. Bauersfeld and Kueppenbender (signing for the Zeiss firm) and Messrs. Henrichs, Hirsch and Schott (signing for the Schott firm) addressed a letter to VVB Optik (the Association of State owned enterprises of which VEB Carl Zeiss Jena then formed a part), claiming ownership on behalf of the Foundation of the firm names and trademarks and proposing discussions looking toward a license agreement pursuant to which the state-owned Zeiss enterprise at Jena would be permitted to use the trademarks in the West. (FF 348-350). JA 929.

By letter dated December 3, 1951 members of the Zeiss Board in Heidenheim renewed the proposal to license the Zeiss VEB, which the district court found was "tacitly accepted by East Germany's Minister of Machinery Construction, who on February 25, 1952, instructed Dr. Schrade that the East German government deemed it expedient to adhere to the proposal as a 'modus vivendi' and to proceed accordingly." JA 1037. The court found that until sometime in 1953, with minor exceptions, products of the VEB were sold outside the Communist Bloc countries in accordance with the conditions laid down in Heidenheim's letter of December 3, 1951 (FF 380). JA 937.

After the East and West failed to reach an agreement on licensing terms, the Zeiss firm in Heidenheim on February 12, 1954 advised the East that it intended to take legal

steps to protect its rights in the Zeiss name and marks (FF 384), and on February 18, 1954 advised all foreign distributors to cease handling Zeiss products made in the East (FF 385). JA 938. On February 27, 1954 the Zeiss firm in Heidenheim obtained an injunction in the district court in Goettingen restraining a West German distributor from selling VEB made products bearing Zeiss marks in West Germany (FF 387). JA 939.

In April, 1954 the Council of the District of Gera (a political subdivision of East Germany) brought an action in the district court of Stuttgart, West Germany, against the Zeiss firm in Heidenheim and the members of the Board, seeking to have the entry of the Zeiss firm stricken from the Commercial Register in the County Court of Heidenheim, and to have certain trademarks, including those at issue here, transferred to and reregistered in the name of the Carl Zeiss Stiftung of Jena. On July 31, 1954 the action was dismissed on the ground that the plaintiff was not a legal representative of the Carl Zeiss Foundation and had no authority to bring the action. Ultimately this decision was affirmed by the Federal Supreme Court of Germany on November 15, 1960.

In May, 1954 the Zeiss firm in Heidenheim brought an action in the District Court of Duesseldorf against Zeiss VEB (appellant in this action) and DIA[20] seeking an injunction against the use of the Zeiss trade names and marks. This resulted in judgment for the plaintiff, ultimately affirmed by the Federal Supreme Court on July 24, 1957 in a decision holding that the board members in Heidenheim had never resigned and were authorized to

20 At the beginning of 1953, the Carl Zeiss Firm in Heidenheim was advised that the sale of products produced in Jena by VEB for export had been taken over by a state trading organization known as "DIA" (FF 381). JA 937.

represent the Foundation as the proprietor of the Zeiss firm (FF 399-402). JA 942-943.

In April, 1954 the Supreme Court of East Germany rendered an advisory opinion to the effect that the Foundation continued to exist in Jena, that the members of the Zeiss and Schott boards had resigned in 1945, and that the 1949 Wuerttemberg decree establishing a new domicile was annulled. A default judgment was entered in the District Court of Leipsig, East Germany, in favor of the District of Gera and the Zeiss VEB against the Zeiss firm in Heidenheim, which was affirmed by East Germany's Supreme Court in March, 1961. There was no participation by the plaintiffs or any representatives of the Foundation or Board in the West in any of the East German proceedings.

Since February, 1954 there has also been litigation with respect to the Zeiss marks in various other countries throughout the world (FF 404). JA 943.

The firm of Carl Zeiss first registered the trademark "Zeiss" in the United States in 1912 (FF 421), "Carl Zeiss Jena" in the distinctive lens frame in 1907 (FF 422), the distinctive lens frame alone in 1914 (FF 423), "CZ" in 1913 (FF 424). In 1919 the United States purported to vest title in the Alien Property Custodian (FF 425). Despite this vesting the Carl Zeiss firm continued to use the trademark in United States commerce at least until 1941 (FF 426). JA 946-947.

Zeiss Ikon A.G. first registered the trademark "Zeiss Ikon" in the United States in 1929. In 1950 the United States purported to vest title in the Attorney General (FF 427). JA 947-948.

Carl Zeiss, Inc., was organized as a New York corporation in 1925 or 1926. Thereafter until the end of 1941 goods manufactured by the Zeiss firm and Zeiss Ikon A.G. were

primarily sold in the United States through Carl Zeiss, Inc. On August 28, 1942 the United States Government vested the capital stock of Carl Zeiss, Inc., in the Alien Property Custodian. It remained so vested until its sale on December 30, 1960 (FF 429-430). JA 948.

After the expropriation in 1948 the Zeiss firm in Heidenheim did not resume manufacturing optical instruments until 1953. From 1949 until September, 1953 optical instruments produced by Zeiss Opton at Oberkochen and elsewhere were sold in the United States by Carl Zeiss, Inc. (FF 433). Since 1953, when it resumed production in West Germany, the Zeiss firm in Heidenheim has sold in the United States goods bearing the various Zeiss trademarks (FF 435). JA 949.

In 1949 appellant VEB commenced to sell goods bearing the Zeiss trademarks in the United States through Carl Zeiss, Inc. In 1950 it commenced to sell through appellants Ercona and Steelmasters (FF 436). JA 949. Since 1961 VEB has sold products in the United States principally through Ercona, and has also sold some products to other dealers (FF 439-441). JA 950-951.

Goods made by appellees in West Germany and those made in Jena bearing Zeiss trademarks have generally conformed to the standards for Zeiss products (FF 442). JA 951.

Prior to 1960 the Attorney General of the United States claimed to be the owner of the trademarks in the United States in his capacity as custodian of alien property. On April 4, 1956 an action was commenced by Ercona and Steelmasters against the Attorney General, Secretary of the Treasury, and Commissioner of Customs seeking to enjoin the United States from preventing the importation of goods manufactured by appellant VEB and bearing the trademark

Zeiss on the ground that the mark had not been validly vested in the United States in 1919 because there was no business to which the mark was appurtenant. Judgment was entered in favor of Ercona and Steelmasters by the district court and affirmed on appeal. *Rogers* v. *Ercona Camera Corporation,* 277 F.2d 94 (D.C. Cir. 1960).

The district court in that case expressly stated that "the respective rights, if any, in the 'Zeiss' trademark of the several Carl Zeiss firms now located in East Germany and in West Germany are not in issue in this case, and the Court expresses no opinion with respect thereto. Nor are the decisions rendered by foreign courts with respect to such rights relevant here." 120 U.S.P.Q. 100, 105 (D.C. Cir. 1958). In affirming the Court of Appeals also noted that the respective claims of Heidenheim and Jena were not in issue. 277 F.2d at 97.

On December 30, 1960 the United States sold the stock of Carl Zeiss, Inc. to the plaintiff Carl Zeiss Stiftung. In authorizing the sale, the Attorney General, acting on behalf of the President of the United States, stated the view of the United States Government that, consistent with the foreign policy interests of the United States and in order that the American consumer not be confused or misled, only Carl Zeiss Foundation in West Germany should be recognized as the legitimate Carl Zeiss Foundation and its operating firms as the producer of genuine Zeiss products (FF 453). JA 953-954.

The district court found that confusion and mistake has resulted among members of the consuming public in the United States from the sale of competing products by plaintiffs and defendants bearing substantially identical trademarks (FF 479) and that continued sale by the defendants

will probably result in continued confusion, mistake and deception (FF 481). JA 959-960.

Between October 1, 1953 and September 30, 1966, sales of products of the Zeiss firm of Heidenheim bearing the various Zeiss trademarks in the United States totaled $56,803,069.00, and Carl Zeiss, Inc., expended $5,893,498.00 in advertising and promoting the trade names and products (FF 468). JA 957.

The total volume of goods produced by appellant VEB and sold by Ercona in the United States between 1948 and 1966 amounted to $6,709,491.00 or an average of less than $350,000.00 a year, with an annual volume since 1957 less than $300,000.00 (FF 473). JA 958. The annual volume of appellant VEB's sales ex-factory to Steelmasters and Ercona has exceeded $150,000.00 in only one year and has been less than $100,000.00 in seven of the remaining years (FF 474). JA 958.

Which Foundation Is Legal Successor to Original Abbe Foundation?

As the district court stated in its reported decision (293 F. Supp. at 896), a central and primary issue is whether the appellee Foundation or that established in East Germany in 1951 is legally identical with, and the successor to, the original Abbe Foundation. In contending that the Jena Foundation is identical with the original Abbe Foundation, appellants argue that the district court erred in (a) failing to determine this issue in accordance with the law prevailing in Jena; (b) finding that the nationalization of the Jena works terminated the capacity of the Foundation to function; (c) applying rules of "German law" which are contrary to the law in Jena; and (d) finding that the domicile could be moved from Jena and that the charter of the Carl

Zeiss Foundation was amended to move the domicile to Heidenheim.

Calling attention to the fact that the Soviet expropriation purported to encompass all Zeiss trademarks owned by the Zeiss firm and the well-settled United States policy against extraterritorial recognition of such decrees,[21] the district court concluded that (1) "the Foundation or its legal successor, if it has legally continued to exist (whether in East Germany, West Germany, or elsewhere), must be recognized as the owner of the United States marks"; and (2) "while a United States court may give effect to expropriation of property located within the territory of the expropriating state, * * * United States trademarks, for the purpose of determining the applicability of our anti-expropriation policy, are deemed to be located within the United States, even though the trademark goods may be manufactured elsewhere * * *." [22] p. 896. It therefore became the task of the district court "to identify the surviving owner" as between the conflicting claims.

In our opinion there is substantial credible evidence to support all of the findings of fact set forth above. Accordingly we agree with the district court that if the issue of legal identity or successorship may be resolved solely as a question of fact, the facts dictate a decision in favor of appellee "as the true Zeiss Foundation"; and if fundamental fairness and equity are the criteria, "the *de facto* existence and operation of the (appellee) Foundation in the West as

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21 In considering the effect of the nationalization of the Zeiss and Schott enterprises in Jena, Judge Mansfield properly distinguished the post-war expropriation in 1948 from the military reparations in 1945.

22 The cases cited by Judge Mansfield support both conclusions. We deem it unnecessary to repeat in this opinion his discussion of the applicable law on this and other issues. Instead we shall refer to the page at which each principle of applicable law is discussed in the reported opinion.

a good faith effort to continue what remained of the overall Abbe Foundation enterprise, after expropriation of its assets in the East and its inability to function in its original domicile, would call for its recognition." p. 897. The authorities cited by the district court support these conclusions.

Law of West Germany Properly Applied

The parties agree that the issue of identity must be determined by German law. They disagree as to whether the German law is that promulgated and interpreted by West Germany or by East Germany.

It is true, as Judge Mansfield stated, that the "legal existence, status, identity, and domicile of a foreign corporate entity or juristic personality, such as the Foundation here, must be determined by the laws of the country where it has been created and continues to exist." p. 898. Here we have a unique situation by reason of the partition of Germany after the creation of the Foundation pursuant to German law and the subsequent expropriation in East Germany. The original Foundation owned the commercial enterprises. This was permissible under German law. Those enterprises in East Germany are now held by VEB, a state or people-owned entity. The present Foundation in East Germany claiming ownership of the Zeiss name and marks does not claim ownership of the commercial enterprises and is dependent upon the state owned enterprise for its support.

The district court properly held that whether German law as declared or construed by the courts of unrecognized East Germany or recognized West Germany[23] should be ap-

23 The district court recognized that "our Government's diplomatic recognition policy is entitled to considerable weight in determining what

plied depends to some extent on the nature of the question to be resolved; that normally "the acts of an unrecognized regime which pertain to its purely local, private, and domestic affairs will be given effect"; but that here the court is "dealing with decisions of East German courts with respect to matters extending beyond the borders of East Germany, such as the nature of a Foundation under federal law and the effect to be given to acts of Wuerttemberg." pp. 900-901.

We conclude that the district court properly applied the law of West Germany. As stated in its opinion, effective January 1, 1900 the German Empire adopted a federal Civil Code, applicable throughout the German federation, containing provisions relating to foundations which were expressly made applicable to existing foundations created under the laws of member states. The Zeiss Foundation Statute was amended in 1905 pursuant to the new German Civil Code. After the adoption of the Civil Code, a foundation was a creature of federal law even though the administration of federal law was delegated to the individual member states and the foundation had its domicile in a particular state. p. 902.

The district court recognized that the domicile of a foundation would usually be the state where its statute was accepted or approved and that a prohibition against transfer of domicile, such as found in Section 121 of the Zeiss Foundation Statute (see note 5, *supra*) would ordinarily

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law is to be applied"; that "the invocation of the policy is complicated in the present case by the fact that the Court is dealing with a divided country, West Germany being recognized as sovereign only over its own territory and not over that of East Germany, which remains unrecognized by the United States"; and that "(c)hoice of law rules normally assume the existence of a territory having an appropriate relationship to the issue over which the recognized foreign government claims sovereignty." p. 900.

bar a transfer. Section 87 of the German Civil Code, however, provides that where a Foundation's purposes can no longer be fulfilled, its statutory purpose may be amended by "the appropriate authority" to enable it to function in accordance with the founder's intention as far as possible.

The appellees' German law experts (whom Judge Mansfield found more credible) would give effect to the German Civil Code and were of the opinion that its provisions superseded the private law systems of the states to the extent that the field was occupied by the federal government. The district court accordingly accepted their view "that under the circumstances presented here (Soviet expropriation which made it impossible to fulfill Dr. Abbe's stated purpose of maintaining the Zeiss Foundation's commercial enterprises and domicile in Jena, and left its operational center and principal remaining commercial works in Wuerttemberg), the State of Wuerttemberg, as a member of the German federation, was empowered by §87 as 'the appropriate authority' to establish the Foundation's domicile where its administrative center and principal operations were now located." [24] pp. 903-904.

As noted *supra,* the Federal Supreme Court of West Germany on July 24, 1957 granted injunctive relief in favor of the Carl Zeiss firm of Heidenheim against the VEB Carl Zeiss of Jena and the DIA. This decision "was based on the conclusion that expropriation of the Foundation's assets had shifted the 'economic center of gravity of the enterprise' to the West, with the result that the firm's principal place of business became Heidenheim, and the Zeiss Board

24 The court rejected appellants' contention that a foundation is strictly a creature of the state which approved the founder's statute or charter, and the supporting testimony of German law experts offered by the appellants, finding the testimony of Professor Steindorff, offered by the appellees, to be more credible, persuasive, and reliable.

in Heidenheim * * * was still the official Board, with authority under Section 114 of the Statute to act on behalf of the Foundation with respect to the Zeiss trademark and trade name in West Germany, regardless whether its legal domicile had been validly transferred from Jena to Heidenheim." p. 908.

The district court of course found independently that the members of the Heidenheim Boards had not resigned and that the effect of the expropriation was to leave Heidenheim as the Foundation's center or principal place of business. Accordingly it is unnecessary to determine whether this and other decisions of the West German courts had estopped appellants from questioning the fact that the Foundation enterprise known as the firm Carl Zeiss was a continuation of that which had existed in Jena. We agree with the district court that in any event these decisions did not have the effect of precluding appellants from raising legal issues not considered by the West German courts, such as the existence of the Foundation as a federal entity and the authority of Wuerttemberg to act under §87 of the German Civil Code. In our opinion the district court reached the correct conclusion on these issues on the basis of the testimony of German law experts.

The district court found the opinions of the courts of East Germany of limited assistance, calling attention to the fact no member of the Boards or other authorized official of the Foundation ever received advance notice of the advisory opinion rendered on April 6, 1954 by the Supreme Court of East Germany, and no Board member or authorized representative participated in the proceeding which resulted in the default judgment in September, 1959,[25]

25 Notice of commencement of the action was sent to the Zeiss firm in Heidenheim, but acceptance was refused and the envelope was returned

affirmed by the Supreme Court of East Germany, in March, 1961. As a result, the "East German courts did not have before them much of the essential proof relied upon" by the district court with respect to the crucial issues in this case, Judge Mansfield found also a lack of "reasoned objective approach" on the part of the East German courts and that their decisions were "thoroughly saturated with a combination of Communist propaganda, diatribes against the 'capitalist oriented' decisions of the West German courts, and absence of judicial restraint," quoting an extended excerpt from the Supreme Court's opinion of March 23, 1961 to illustrate the nature of the Court's approach. p. 907.

Foreign Decisions

It is true, as appellants contend, that courts in England, Switzerland, Pakistan, Norway, India, and Australia[26] have accepted East German law, at least for the purpose of determining the capacity of the Jena Foundation to institute suit. As noted *supra*, the courts of East Germany have held

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to the district court in Leipsig unopened, with a cover letter denying jurisdiction of the East German courts on the ground that they were not legally constituted (FF 409). JA 944.

26 Copies of these decisions have been included in an appendix to the briefs: *Carl-Zeiss-Stiftung* v. *Rayner & Keeler, Ltd.*, [1964] R.P.C. 299, *aff'd* [1966] 2 All E.R. 536; *Carl-Zeiss-Stiftung* v. *Rayner & Keeler, Ltd.*, [1969] 3 All E.R. 897; *VEB Carl Zeiss, Jena* v. *Firma Carl Zeiss, Heidenheim*, [1965] Entscheidungen des Schweizerischen Bundesgerichts 117 (Swiss Federal Supreme Court); *Carl-Zeiss-Stiftung of Heidenheim* v. *Carl Zeiss Stiftung, Jena*, PLD 1968 Karachi 276 (High Court of West Pakistan); *Jenaer Glaswerk Schott & Gen., Mainz* v. *VEB Jenaer Glaswerk Schott & Gen., Jena*, Oslo Town Court (Norway), March 18, 1969; *Carl Zeiss Stiftung, Heidenheim* v. *Carl Zeiss Stiftung, Jena*, not reported (Indian Joint Registrar of Trademarks), March 12, 1968; *Re Carl Zeiss Pty. Ltd.'s Application*, [1969] 43 ALJR 196 (Australia).

that the Jena Foundation was identical with the Zeiss Stiftung.

In particular, appellants rely upon the opinion of Mr. Justice Cross in the High Court of Justice—Chancery Division in *Carl Zeiss Stiftung* v. *Rayner & Keeler, Ltd.* (1964) and opinions in the House of Lords affirming the lower court (1966). In further proceedings in the same case Mr. Justice Buckley in an opinion rendered in 1969[27] clarifies the nature and sharply limits the effect of the prior holdings in that case, as well as the decisions of India and Pakistan.

In the English action Carl Zeiss Stiftung in Jena is one of the plaintiffs and Carl Zeiss Stiftung of Heidenheim is one of the defendants. The matter was before Mr. Justice Cross on a "summons issued by the defendants" seeking dismissal and a stay of further proceedings on the ground that the plaintiff did not have authority to represent the Carl Zeiss Stiftung. The summons to stay was dismissed. Before Mr. Justice Buckley was a motion of the plaintiff, the Carl Zeiss Stiftung of Jena, to strike parts of the defense of the defendant Carl Zeiss of Heidenheim. The court granted the motion to strike the defense denying that the plaintiff was a validly constituted Stiftung and that the administration of the plaintiff had been transferred to the Council of Gera. The court denied the motion to strike the defenses alleging that the defendant and not the plaintiff was the original Stiftung; that the "Sitz" was transferred to Heidenheim; and, that the original Stiftung ceased to exist as a result of the confiscatory decrees and transfer of the optical and glass works. It is clear from

27 This is the most recent and we believe the most significant of the foreign decisions. For that reason we deem it advisable to refer in some detail to its clarifying and limiting effect.

this opinion that the English courts have not yet determined most of the critical issues here involved.

After holding that the decision of Justice Cross was final and binding on the parties and their privies with respect to the finding that the plaintiff was a "body competent through the council of Gera to instruct solicitors and to sue as a plaintiff * * *," Mr. Justice Buckley continued:

> "The learned judge's order, read in the light of the application on which it was made, does not appear to me to carry any further necessary implication. * * *[28]
>
> "I am consequently of opinion that nothing decided by Cross, J., or the House of Lords renders any question about the status or character of the third defendant res judicata on three grounds: (i) that any such question must be answered by reference to West German law, which was not investigated either by Cross, J., or the House of Lords; (ii) that any decision on such a question would not have been necessary for the purposes of those proceedings but purely collateral; and (iii) that the plaintiff was not a party to those

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28 In further clarification of the prior holding, Justice Buckley, after pointing out that Justice Cross had concluded "that in the contemplation of East German law the plaintiff is the original stiftung," continued:

> "* * * On the other hand, he held, that in contemplation of West German law the 'foundation,' by which I think he clearly meant the original stiftung, was 'domiciled' in Heidenheim under the two Wurttemberg decrees. In these circumstances I think that it is reasonably clear that the learned judge was not expressing a concluded view that the plaintiff was for all purposes to be regarded as the original stiftung and that the third defendant was not to be so regarded for any purpose, but merely the view that, since the status of the plaintiff as a competent plaintiff in this action was to be ascertained in the light of the plaintiff's own proper law, namely East German law, the plaintiff must be accepted as having a corporate existence under that law, and that the council of Gera must be accepted as having authority to instruct solicitors on its behalf."

proceedings nor privy to any party to those proceedings."

After discussing the judgments in Pakistan and India, Justice Buckley concludes that "neither the Pakistani judgment nor the Indian contains any decision which debars the third defendant (appellee here) from alleging that it is by West German law, or indeed any other system of law except East German law, the original stiftung."

Finally, Justice Buckley concludes that the law of the original domicile or "sitz" is not necessarily controlling and that it must be "at least theoretically possible that by operation of the proper law for the time being of a corporation another system of law may be substituted as the proper law of the corporation." He continued:

> "If, however, this be the intention, the point must involve consideration of what at any relevant moment or moments should be regarded as the proper law of the original stiftung or of the third defendant. Clearly in the first instance the proper law of the original stiftung was the law of the Grand Duchy of Saxe-Weimar-Eisenach; but, having regard to the political vicissitudes of Thuringia and to the possible conflict between East and West German law, this aspect of the case, which was not relevant to what Cross, J., and the House of Lords had to decide, has, in my judgment, not yet been judicially considered, either expressly or by implication, in any litigation relied on in these proceedings, and cannot be res judicata. If, however, the plea means something else (for instance that the administrative centre or principal place of business was transferred) this must involve questions of foreign law which, so far as I can tell, have not yet been judicially considered and so cannot be res judicata."

Appellants in their brief quoted at length from the opinion of Justice Cross finding that in the letter of January 28, 1946 (referred to by Judge Mansfield as the "blackmail letter") the Heidenheim gentlemen "did unquestionably agree that they had vacated office." He rejected the testimony of Dr. David that David had explained the intent of the letter orally at a meeting in Jena at which Dr. Schrade was present, accepting instead Schrade's testimony denying that he (Schrade) was present at any meeting.

The Jena Foundation had contended before Justice Buckley that in making the finding that the Heidenheim group had resigned, Justice Cross intended "to decide this issue once and for all." Justice Buckley, however, concluded that it was a "matter for the trial judge to decide whether he will admit any further evidence on this issue," suggesting that the trial judge "might be persuaded that Cross, J. did not have all the relevant material before him" or might otherwise conclude that the finding had no effect on the action.

Judge Mansfield found that "Dr. Schrade's earlier denials under oath" that David delivered and personally explained the letter "(upon which the High Court of London rested so heavily in its decision) are now thoroughly disproved, particularly by Dr. Klemm's diary (uncovered only recently)." Without accepting Dr. David's testimony in toto, Judge Mansfield found it generally credible and corroborated. JA 989-990. We accept the findings of Judge Mansfield.[29]

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29 Without pursuing further the holdings in the foreign decisions, it may be said in general that the proof submitted in the district court in this case apparently was the most complete of that offered in any of the cases heard to date, and that few cases thus far have reached any final determination on the merits.

"Act of State" Doctrine

The district court made a careful and detailed analysis of the "act of state" doctrine, reaffirmed by the Supreme Court in *Banco Nacional de Cuba* v. *Sabbatino,* 376 U.S. 398, 84 S. Ct. 923, 11 L. Ed.2d 804 (1964). pp. 909-914. We adopt that portion of Judge Mansfield's opinion and agree with his conclusion that "although the Wuerttemberg decrees and the German Parliament's Act of 1967 are not entitled to recognition as acts of state to the extent that they purport to terminate the Foundation's domicile in East Germany since to that extent they acted extraterritorially, they are entitled to such recognition insofar as they acted to give a legal status to the Foundation's *de facto* existence in West Germany as a continuation in the West of the original Zeiss cooperative enterprise, whose remaining commercial assets (worth 30 million marks) and personnel were almost entirely within the West's territorial jurisdiction." p. 912.

Appellee Zeiss Ikon A.G.

We agree with the district court that appellee "Zeiss Ikon A.G. is the same corporation as that which, prior to the Soviet expropriation of its assets in 1947, had its seat in Dresden (Soviet Zone), with manufacturing establishments in Stuttgart and West Berlin"; that its domicile was "validly transferred" to Stuttgart; and that it is the "owner of the United States 'Zeiss Ikon' marks." p. 915.

Trading With The Enemy Act

We adopt also that portion of Judge Mansfield's opinion holding that appellants are "barred from asserting any claims to the United States trademarks in dispute by §5(b)

of the Trading With The Enemy Act (50 U.S.C. App. §1 et seq.) and regulations thereunder (8 C.F.R. §507.46)." p. 916.

Claim for Joint or Concurrent Use and Defenses of Laches, Acquiescence and Abandonment

In oral argument counsel for appellants relied primarily upon their alternative claim that in any event appellee Foundation is not entitled to an injunction, and appellee VEB should be accorded "joint" or "concurrent" use of the names and trademarks by reason of laches, acquiescence or abandonment on the part of the appellee.

The district court correctly summarized the applicable law with respect to these defenses:

> "Where a person entitled to exclusive use of a trademark is guilty of unreasonable delay in asserting his rights against an infringer or junior user, or acquiesces in the latter's use, or evinces an intent to abandon his rights in the marks, a court of equity has the discretionary power, after weighing the respective interests of the parties, to deny injunctive relief or an accounting. Saxlehner v. Eisner & Mendelson Co., 179 U.S. 19, 21 S. Ct. 7, 45 L. Ed. 60 (1900); La Republique Francaise v. Saratoga Vichy Spring Co., 191 U.S. 427, 24 S. Ct. 145, 48 L. Ed. 247 (1903)." p. 917.

The court then pointed out that the existence of laches or acquiescence, and whether it is sufficient to bar relief, "depends upon a consideration of the circumstances in each particular case and a balancing of the interests and equities of the parties." The court continued:

"Among the factors to be weighed in determining whether laches will bar relief are the strength and value of the trademark right asserted . . . the plaintiff's diligence, or lack of it, in seeking to enforce the mark . . . the harm that will result to the senior user if relief is denied . . . whether the junior user is an innocent infringer who acted in good faith ignorance of the senior's rights . . . the extent to which the senior and junior uses of the mark are competitive . . . and the extent of harm or prejudice suffered by the junior user as a result of the senior's delay . . ." p. 917.

The court also distinguished laches from acquiescence:

"As distinguished from laches, acquiescence constitutes a ground for denial of relief only upon a finding of conduct on the plaintiff's part that amounted to an assurance to the defendant, express or implied, that the plaintiff would not assert his trademark rights against the defendant. Aunt Jemima Mills Co. v. Rigney & Co., 247 F. 407 (2d Cir.), cert. denied, 245 U.S. 672, 38 S. Ct. 222, 62 L. Ed. 540 (1917); Alfred Dunhill of London, Inc. v. Dunhill Tailored Clothes, 119 U.S.P.Q. 325 (S.D. N.Y. 1958). Although acquiescence may bar relief even where the plaintiff acts diligently, whether conduct amounts to acquiescence warranting denial of relief turns on an examination of all the surrounding circumstances, and requires a balancing of the equities." p. 917.

(a) Laches

Appellants argue that appellees were guilty of laches in their "fourteen-year delay in bringing this action." It is clear that "mere passage of time cannot constitute

laches." A district court in its discretion, however, may find laches if the passing of time can be shown to have lulled the defendant into a false sense of security, and the defendant acts in reliance thereon. *Friend* v. *H. A. Friend and Company*, 416 F.2d 526, 533 (9th Cir. 1969).

In this case the district court found that appellees' failure to institute suit until 1962 "was justified by circumstances revealing that they were neither sleeping on their rights nor leading defendants to believe that no action would be taken, but that, on the contrary, they were for almost the entire period from 1949 to 1962 vigorously asserting and prosecuting their rights." [30] p. 918. We agree. There is no evidence that appellants were ever lulled into a false sense of security or acted in reliance thereon.

(b) Acquiescence or Abandonment

It is true that between 1948 and 1954 Jena manufactured products were sold in the West with the approval of the Heidenheim management. They were sold through Heidenheim sales outlets and were products which did not compete with or were in short supply at Heidenheim.[31] Moreover, it is clear that at all times during that period appellee Foundation claimed the trademarks outside the Soviet Zone (which Jena disputed). During most of the period the Boards in Heidenheim were negotiating with VEB on a licensing arrangement. While there was no formal acceptance of the licensing proposal, the district court properly

30 The opinion of the district court sets forth in detail the events between 1949 and 1962 in support of this conclusion, and we deem it unnecessary to repeat them.

31 Appellee Foundation did not itself distribute the Jena goods in the United States. They were shipped to the United States directly by the Jena enterprise.

found that the Jena VEB adhered to the program as a "modus vivendi" until February, 1954. There was no showing of any intent on the part of appellee Foundation to abandon its rights in the marks.[32] Under these circumstances the conduct of appellee Foundation cannot be said to constitute either acquiescense or abandonment warranting denial of relief.

(c) Joint or Concurrent Use

Our conclusion with respect to the defenses of laches, acquiescence and abandonment answers in part appellants' contentions that the injunction was unwarranted and that appellants are entitled to the "joint use" or "concurrent use" of the Zeiss trademarks. As the district court well said, these terms standing alone do not represent a defense to trademark infringement claims. They simply describe factors considered in determining the equities in a particular case. p. 918.

This court in a number of trademark infringement cases has considered the "conflicting interests" which must be weighed and balanced in determining whether both parties should be permitted to use trademarks in dispute.[33] In no case, however, have we considered the precise situation here presented—where both parties claim ownership or the right to use the same names and substantially the same marks and are directly competitive in the manufacture and sale of

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32 See *Tillamook County Cream. Ass'n* v. *Tillamook Cheese & D. Ass'n*, 345 F.2d 158, 162 (9th Cir. 1965), and cases there cited.

33 See *Avon Shoe Co.* v. *David Crystal, Inc.*, 279 F.2d 607, cert. denied 364 U.S. 909, 81 S. Ct. 271, 5 L. Ed.2d 224 (1960); *Polaroid Corp.* v. *Polarad Electronics Corp.*, 287 F.2d 492, cert. denied 368 U.S. 820, 82 S. Ct. 36, 7 L. Ed.2d 25 (1961); *Triumph Hosiery Mills, Inc.* v. *Triumph Int'l Corp.*, 308 F.2d 196 (1962); *Chandon Champagne Corp.* v. *San Marino Wine Corp.*, 335 F.2d 531 (1964); *Miss Universe* v. *Patricelli*, 408 F.2d 506 (1969).

the same products. Most cases have involved names and marks which are similar or the use of family names, and the court has been concerned with whether the use of a "reproduction, * * * copy, or colorable imitation of a registered mark * * * is likely to cause confusion, or to cause mistake, or to deceive" (15 U.S.C. §1114(1)(a)). Obviously also those cases where the parties' goods were not competing or the defendant adopted his mark in ignorance of the plaintiff's mark are not in point.[34]

Under the Lanham Act (15 U.S.C. §1114(1)) confusion as to source of origin is the "keystone" for injunctive relief. *Avon Shoe Company* v. *David Crystal, Inc., supra,* 279 F.2d at 612. In determining whether there is sufficient evidence of confusion and deceit to entitle an owner to injunctive relief, several factors must be considered. This rule was last summarized by this court in *Miss Universe, Inc.* v. *Patricelli, supra,* as follows:

> "Several factors enter the calculation of 'likelihood of confusion': the degree of similarity between the marks in appearance and suggestion; the similarity of the products for which the name is used; the area and manner of concurrent use; the degree of care likely to be exercised by consumers; the strength of the complainant's mark; actual confusion; and an intent on the part of the alleged infringer to palm off his products as those of another." 408 F.2d at 509.[35]

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34 In general the cases clearly support the conclusion of the district court that "where the products of the respective parties are not directly competitive, the plaintiff's interest in securing equitable relief may be entitled to less weight than where the infringer markets a competitive product." p. 918.

35 Another factor entitled to consideration in determining whether joint use should be allowed is the expense incurred by the respective parties in advertising and promoting the trade names, marks and products.

As noted *supra*, the district court found that: "Confusion and mistake has resulted among members of the consuming public in the United States from the sale of competing products by plaintiffs and defendants bearing substantially identical trademarks" (FF 479); and the continued sale by appellants of goods bearing the various "Zeiss" trademarks "and the use of the trade name 'VEB Carl Zeiss Jena' or any other trade name containing the word 'Zeiss' or 'Carl Zeiss' in connection therewith, will probably result in continued confusion, mistake and deception on the part of members of the public and the trade in the United States (FF 481)." JA 959-960. There is ample evidence in the record to support these findings. The factual findings of a trial court should not be set aside unless they are clearly erroneous. Rule 52(a) F. R. Civ. P.[36]

In *Miss Universe, Inc.* v. *Patricelli, supra*, we held that "while appellant's use of any mark containing the contiguous words or abbreviations 'Miss United States of America,' 'Miss United States,' and 'Miss U.S.A.' is likely to confuse the consuming public, the same cannot be said about the

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Stork Restaurant, Inc. v. *Sahati*, 166 F.2d 348 (9th Cir. 1948); *Anheuser-Busch, Inc.* v. *DuBois Brewing Co.*, 175 F.2d 370 (3d Cir. 1949), cert. denied 339 U.S. 934, 70 S. Ct. 664, 94 L. Ed. 1353 (1950).

It is clear in this case that appellees have incurred the major portion of the expense of promoting the Zeiss trademarks. As noted *supra*, between 1953 and 1966 sales of the Zeiss firm of Heidenheim in the United States totaled $56,803,069, and Carl Zeiss, Inc. expended $5,893,498 in advertising and promoting the trade names and marks and the products manufactured by appellees (FF 468). JA 957. The total sales of appellants from 1948 through 1966 amounted to $6,709,491 (FF 473, JA 956)—slightly more than Carl Zeiss, Inc. expended in advertising and promotion.

36 In *Miss Universe, Inc.* v. *Patricelli, supra*, we recognized that the findings of the district court with respect to the "existence of actual confusion and the alleged infringer's intent—are subject to the 'clearly erroneous' standard normally applicable to findings of fact." 408 F.2d at 509.

mark 'Miss World—U.S.A.' which contains a different, distinguishable major element in placing the emphasis on 'Miss World.'" 408 F.2d at 511. The instant case is clearly distinguishable. Here the key words are "Zeiss" and "Carl Zeiss." These names represent trademarks which identify optical and other precision instruments. Confusion is not avoided by adding the words "VEB" and "Jena," or by indicating that the products are manufactured in East Germany. There is of course nothing in the decree to prevent appellants from using the word "Jena" or identifying its goods as having been produced in Jena. Apparently during the period 1956-1959 Ercona did in fact sell Jena made products in the United States without the Zeiss name or marks.[37]

After weighing all pertinent factors we agree with the district court that a decree permitting joint or concurrent use is not warranted and would result in confusion and deception of the consuming public.

Antitrust Defense

There was sufficient evidence to support the findings of the district court on the issues raised by appellants' defense that appellees misused the Zeiss trademarks in violation of

37 The findings of the district court in the trial of the antitrust issues, entered March 12, 1969, contain the following: "During the period from approximately 1956 to 1959 defendants sold goods in the United States manufactured by V.E.B. Carl Zeiss Jena from which the Zeiss trademarks had been obliterated and on which only the symbol 'CJZ' appeared. Prior to 1956 and after 1959 instruments bearing the Zeiss trademarks were sold by Ercona in the United States. A comparison of Ercona's volume of sales of such instruments for the entire period fails to show any causal connection between the Zeiss trademarks and Ercona's sales volume fluctuated up and down from year to year, revealing that two of the years (1956, 1959) in which the marks were obliterated produced a greater annual volume than five of the years (1952-1955 and 1961) in which the marks were on the instruments" (Finding 7). JA 1186-1187.

the antitrust law. The district court properly rejected this defense for the reasons set forth in its opinion reported at 298 F. Supp. 1309 (1969).

Right to Damages

Under the Lanham Act when trademark infringement is established the plaintiff is entitled to injunctive relief (15 U.S.C. §1116) and "subject to the principles of equity, to recover (1) defendant's profits, (2) any damages sustained by the plaintiff, and (3) costs of the action" (§1117).

This does not mean that a successful plaintiff is entitled in all cases to a monetary award in addition to injunctive relief. The award for damages is "subject to the principles of equity." Relief is properly denied "when an injunction will satisfy the equities of the case" and where "there has been no showing of fraud or palming off." *Champion Spark Plug Co.* v. *Sanders,* 331 U.S. 125, 131, 67 S. Ct. 1136, 91 L. Ed. 1386 (1947).

Ordinarily it is necessary to show "not only that the infringer infringed, but that he did so with the deliberate intent to cause confusion, mistake or to deceive purchasers; in other words, to purposely palm off the infringer's goods as those of the infringed." *Everest & Jennings, Inc.* v. *E & J Manufacturing Co.,* 263 F.2d 254, 262 (9th Cir. 1958), cert. denied 360 U.S. 902, 79 S. Ct. 1284, 3 L. Ed.2d 1254 (1959). It has been held also that a plaintiff is not entitled to a monetary award when the defendant apparently acted in a good faith belief in his right to use the mark. *Consumers Petroleum Co.* v. *Consumers Co.,* 169 F.2d 153 (7th Cir. 1948), cert. denied 335 U.S. 902, 69 S. Ct. 406, 93 L. Ed. 437 (1949).

In the decree entered April 1, 1969, it is recited that since in or about 1953, appellants "have, in violation of

§43(a) of the Lanham Act, 15 U.S.C. 1125(a), from time to time falsely described and falsely designated the origin of goods imported by them into the United States and sold in United States commerce as being goods produced by plaintiff Carl Zeiss or its licensee when in fact such goods were produced by defendant VEB Carl Zeiss Jena, a nationalized East German concern, which has no legal or other connections with plaintiff Carl Zeiss or any of its affiliated firms." The decree then provided that each plaintiff is entitled to enforce all of its rights against the defendants, "including damages, defendants' profits and an injunction." JA 1218. The determination of the claims for damages and an accounting were deferred for subsequent trial. JA 1221.

Appellees argue that the district court found that the appellants were not acting in good faith, relying upon the court's conclusion that appellants having "at all times been on full notice" of appellees' claims were "hardly in the position of innocent or ignorant infringers." JA 1107. We do not construe this as an express finding of bad faith. Nor do we find any "showing of fraud or palming off."

Again we are confronted with a unique situation, with no prior cases precisely in point. The district court has found, and we agree, that appellee Foundation is the successor of the Carl Zeiss Stiftung and is the owner of the trademarks. We agree also that appellants were on full notice of appellees' claims. On the other hand, appellants were at all times denying appellees' claims and asserting their own claim to the exclusive use of the trademarks as licensees of the Jena Foundation.

Appellants did not seek to have the American public believe that their goods originated in Heidenheim. Nor were they claiming to be licensees of the Heidenheim Foundation. Rather they claimed that as licensees of the Jena Founda-

tion (which they contended was the successor of the Carl Zeiss Stiftung) they were entitled to the exclusive use of the trademarks in the sale of goods manufactured in Jena.

The determination of ownership and right to use of the trade names and marks has involved the resolution of many complex and difficult factual and legal issues. The Supreme Court of East Germany expressly held that appellant VEB was entitled to the use of the trademarks, and decisions from other courts have lent some support to appellants' claim. There was a difference of opinion on the part of German legal experts with respect to the applicable German law. Prior to the trial of this case there were many unresolved factors upon which appellants might reasonably rely in support of their claims.

Even though in this case the factual and legal issues have now been resolved against appellants, we cannot find under all the circumstances that they acted in bad faith in asserting their claim. We conclude that the "injunction will satisfy the equities of the case" and that the claim for damages should be disallowed.

Accordingly the decree of the district court is modified by deleting from it those provisions of paragraph 14 which relate to damages and accounting of defendants' profits. As so modified, the judgment of the district court is affirmed.

APPENDIX E

Opinion of District Court on Trademark Ownership

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,	:	
Plaintiffs,	:	
-against-	:	
V.E.B. CARL ZEISS, JENA; STEELMASTERS, INC.; ARCONA CORPORATION; EXAKTA CAMERA COMPANY, INC.; and CAMERA SPECIALTY COMPANY, INC.,	:	62 Civ. 850
Defendants,	:	
CARL ZEISS, INC.,	:	
Additional Defendant on Counterclaims.	:	

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MANSFIELD, D.J.

This trademark infringement action, commenced in February, 1962, is another chapter in a series of world-wide confrontations between two groups, one located in West Germany and the other in the East German or Soviet Zone, over the use of the "Zeiss" trademarks and firm name on optical and precision mechanical instruments. Each group claims to be the "true" Zeiss enterprise (called a "Stiftung" or "Foundation" in Germany) and hence entitled to the exclusive use of the various Zeiss trademarks. Resolution of this controversy with respect to the United States Zeiss marks depends on a determination of which group is identical with, or the legal successor to, the original Zeiss Foundation established by Dr. Ernst Abbe in Germany in the 19th century; the effect to be given to various legal measures taken by authorities in East and West Germany following Germany's division into military occupation zones in 1945; and the applicability of certain principles of American law.

The trademarks in issue are: "Zeiss", "C.Z.", the words "Carl Zeiss Jena" in a distinctive lens frame, the distinctive lens frame alone, and "Zeiss Ikon". They are used on optical and mechanical products of great precision and high quality, such as satellite tracking telescopes, planetarium projectors, microscopes, binoculars, photographic lenses, and spectacle lenses. The marks and Zeiss trade name, and good will attaching to them, are without dispute of considerable value.

Plaintiffs are the "Carl Zeiss Stiftung," ("Foundation" herein) "doing business under the name and style of Carl Zeiss," and its subsidiary, Zeiss Ikon A.G., both of West Germany. Defendants are "V.E.B. Carl Zeiss, Jena"* of East Germany (Soviet Zone) and its four American distributors (Steelmasters, Ercona, Exakta, and Camera Specialty). Named as an additional defendant in counterclaims is Carl Zeiss, Inc. of New York, a wholly-owned subsidiary of plaintiff Foundation.

Each side claims that it is legally identical to the original Zeiss Foundation, or, in the case of defendants V.E.B. Carl Zeiss and Ercona, its licensee or assignee.

The complaint alleges that plaintiff Foundation is a

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* VEB, or Volkseigener Betrieb, means "Peoples-Owned Enterprise," a type of entity authorized in the Soviet Zone.

German entity, that from the time of its creation in 1889 until at least 1945 the legal domicile and situs of its principal industrial and non-industrial activities were in Jena, now in East Germany (Soviet Zone), and that in April 1945 Jena was occupied by American troops who relinquished control to Soviet forces in June 1945. The complaint further alleges that prior to relinquishing control of Jena, American forces evacuated some 130 Foundation employees, including top management and leading scientists, to Baden-Wuerttemberg, a Land (or State) in the American Zone, where they commenced to establish new Zeiss production facilities; that thereafter, in June 1948, all of the plants, properties and industrial assets of the Foundation in the Soviet Zone were expropriated, thus completely frustrating the purposes of the Foundation there but not affecting assets outside the Soviet Zone; and that in 1949 and 1954 the government of the West German State of Baden-Wuerttemberg* ("Wuerttemberg" herein), at the request of the evacuated Zeiss management, issued an administrative act effectively transferring the Foundation to the American Zone so that it might continue its activities there in accordance with its charter. Plaintiffs

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* In September, 1945, the American Occupation Authority merged parts of the former States of Baden and Wuerttemberg (where Heidenheim and Stuttgart were located) to form the State of Wuerttemberg-Baden; and in 1951 the pre-World War II States of Baden and Wuerttemberg were combined to form the State of Baden-Wuerttemberg.

further allege that the United States Government has recognized the Federal Republic of Germany (West Germany) as the only lawful government of Germany and has refused to recognize the German Democratic Republic (East Germany), treating the latter as under the control of the Soviet Union.

Based on these allegations plaintiffs claim that they are the owners of the United States Zeiss trademarks because plaintiff Foundation is the original Foundation and plaintiff Zeiss Ikon the original Zeiss Ikon corporation, and that therefore the use of these trademarks in the United States by defendant V.E.B. Carl Zeiss Jena of East Germany and its distributors is unlawful. The complaint seeks an injunction, damages, and declaratory relief for trademark infringement, unfair competition and false description and designation of goods. Jurisdiction is based on the Lanham Act, 15 U.S.C.A. §§1051, et seq., and 28 U.S.C.A. §§1331 and 1338.

Defendants' answers deny the principal allegations of the complaint and by way of affirmative defenses and counterclaims allege that plaintiff Foundation is not the original Zeiss Foundation organized in 1889 and does not have any right, title or interest in or to its property; that the Foundation is still located in Jena, East Germany, in accordance with its charter; that the Zeiss marks belong to it and to defendants

V.E.B. Carl Zeiss, Jena and Ercona by license and assignment; and that the use of the Zeiss marks by plaintiffs and Carl Zeiss, Inc. of New York, additional defendant on counterclaims, is unlawful. Defendants also allege res judicata, abandonment, acquiescence, and other inequitable conduct, including trademark misuse in violation of the antitrust laws, and seek injunctive and declaratory relief and damages. Trial of the antitrust defenses and counterclaims and of all damage issues has been deferred. Defendants Exakta Camera Co. and Camera Specialty Co. have agreed to be bound by any final judgment, except as to damages, entered against the other defendants, and have not participated further in these proceedings.

In their reply to the counterclaims, plaintiffs allege that the courts of West Germany have determined the legal status of the Foundation in their favor, that their determination is conclusive here; and that the purported assignment from V.E.B. Carl Zeiss, Jena to Ercona is unlawful because the V.E.B. had no rights in the trademarks assigned for the reason that the assignment of pre-1946 United States trademarks by an East German national is prohibited by the Trading With the Enemy Act, 50 U.S.C. App. §§1-40, and regulation 8 C.F.R. §507.46 issued thereunder, and because the assignment was not accompanied by the transfer of any underlying business.

The issue thus presented as to the ownership and use of the American Zeiss marks is one of many between substantially the same parties with respect to similar rights in other countries. After extensive pre-trial discovery and eventual assignment of the case pursuant to Rule 2 of the Court's General Rules to one judge for all purposes, trial consumed more than six weeks, during which the Court heard 20 witnesses, including six experts on German law, totalling over 4,100 pages of testimony plus extensive depositions. The record includes more than 550 documentary exhibits, many of them voluminous. Post-trial briefs and proposed findings total more than 800 pages.

Background, Nature, Purposes, and Organization of the Zeiss Foundation

Certain facts are not disputed. Both sides agree that the Zeiss enterprise may be traced back to 1846 when Carl Zeiss moved to the city of Jena in what was then the Grand Duchy of Saxe-Weimar-Eisenach, Empire of Germany, where he established a workshop for the manufacture of optical and precision mechanical instruments and related products. From at least 1863 the business was carried on as the "Firma" Carl Zeiss. Under German law a "Firma," or firm, is the name under which a merchant, whether a natural person or juristic legal entity, conducts business and may sue or be sued. In 1875 he formed a partnership with Dr. Ernst Abbe, a mathematician and physicist at the

University of Jena who was deeply interested in the development of optical science. Beginning about 1884, Zeiss and Abbe, together with Otto Schott, began the manufacture of optical and other types of glass in a business later known as Firma Jenaer Glaswerk Schott & Gen.

Both the Zeiss and Schott businesses grew and prospered, employing a substantial number of people and yielding considerable profits to the owners. In 1888 Carl Zeiss died, leaving to his son Roderich his interest in the business. Upon Carl Zeiss' death it was apparent to Dr. Abbe that unless the continuity of these commercial enterprises could be assured after the death of himself and Schott, their further development and growth, and that of the precision optical science and technology made possible by them, might be threatened, with possible loss to the workers employed in the plants, toward whom Abbe felt a strong obligation. In 1889 he therefore formed a legal vehicle known as a private "Stiftung," or Foundation for the conduct of these essentially commercial activities, which came into existence pursuant to laws of the Duchy of Saxe-Weimar-Eisenach, then part of the German Empire. In 1891 the Foundation acquired all the assets of the Carl Zeiss partnership and a one-half interest in the Schott firm, the remaining one-half interest eventually being conveyed to the Foundation by Otto Schott in 1919.

Under German law a private "Stiftung," or Foundation, is a legal entity or juristic person with some attributes similar to those of a corporation under American law, including the capacity to own property, enter contracts, engage in business activities, sue and be sued, etc. It differs from a stock corporation (known as an "AG" under German law) in that it has no stockholders. On the other hand, the absence of stock ownership does not mean that it is therefore a public, non-profit, charitable or eleemosynary enterprise. It is more in the nature of a trust to which the attributes of separate legal existence as an entity are extended. The formation or organization of such an entity is initiated through the execution by the individual founder (in this case Dr. Abbe) of a charter or "Statut" ("Statute" herein), a basic governing instrument (either inter vivos or by will), which sets forth his intent and any provisions for management of the enterprise he specifies. Upon acceptance and approval of this written declaration by the appropriate state authority, the Foundation comes into existence, and may separately own such property as is transferred to it. Whether it is a "private" or "public" Foundation depends on the terms of its charter or Statute. Under German law any explanatory notes made by the founder are entitled to great weight in interpreting the provisions of the Foundation's Statute.

Resolution of some of the basic issues in this case must turn in part upon the nature, purposes, and charter terms of the Foundation created by Dr. Abbe. While at first blush any attempt to spell out the founder's intent might appear to be so fraught with tenuousness as to put a premium on temerity, the Foundation's Statute, or charter (as drafted by Dr. Abbe in 1889, and as redrafted and resubmitted by him in 1896, and approved by the Grand Ducal Authorities of Saxe-Weimar-Eisenach on July 30, 1896), together with Dr. Abbe's Explanatory Notes, are so detailed and clear that even the temerarious can proceed without peril. From them it is apparent that what he established was a continuation of the two basic existing commercial enterprises, the Zeiss and Schott works, as the property of the Foundation, to be operated privately as a permanent cooperative business venture or association with a view to its realizing a profit from such operations. Instead of the profits being distributed to himself, Roderich Zeiss, Schott, and their families, who would have been the stockholders if a conventional-type corporation had been formed, the profits were to be used primarily to maintain, develop and increase the business enterprises or works and to provide economic benefits for the workers employed in them. Any surplus was to be used (as a secondary purpose) for promotion of technical knowledge and science outside

of the works, and for participation in community organizations and measures intended to help the working population in Jena, where the works were then located.

Section 1 of the Statute provides:

"A. Within the Works

"1. To cultivate the branches of precise technical industry, which have been introduced into Jena by the Optical Works and the Glass Works with the co-operation of the founder of the Stiftung and thereby maintain the said industrial establishments under an impersonal title of proprietorship; that is to say:

"2. Permanent solicitude for the economic security of the above undertakings as well as for the conservation and further development of their industrial labour organization--as a source of subsistence for a large number of people and as an efficient member in the service of scientific and practice interests;

"3. To fulfill high social duties, than personal proprietors would permanently guarantee, towards totality of co-workers in its employ, in order to better their personal and economic rights.

"B. Outside the Works

"1. To promote the general interests of the branches of precise technical industry as indicated above not only within the sphere of action proper of the Stiftung's Works but also outside of it;

"2. To take part in organizations and measures designed for the public good of the working population of Jena and its immediate neighbourhood;

"3. To promote study in natural and mathematical sciences both as regards research and teaching.

"The objects of the Stiftung as enumerated under A are to be carried out by the Stiftung by virtue of the statutory administration of its own industrial undertakings exclusively and within the scope of these undertakings.

"Respecting carrying out of the objects of this Stiftung as enumerated sub B, these shall be limited to such surplus funds as may be available after the provisions as detailed sub A have been provided for."

That Dr. Abbe established a private-type Foundation to engage in commercial business for a profit is confirmed by

(1) various other sections of the Statute, including Section 40 entitled "General guide for the business policy of the Foundation" which provides:

"In accordance with the duties ascribed to the Foundation in §1, its business activity shall have for its object from an economical standpoint, not only the highest possible increase of the net profits of working surpluses of its undertakings, but rather the increase of the economic total result...", by

(2) Section 41, entitled "Criterion for the economic working of the businesses of the Foundation," which prescribes conditions for calculating "the net profit of each business of the Foundation;" and by

(3) Section 42 which refers to "efforts to increase the effectiveness of the Foundation from an economic standpoint" including "the purposes of gain".

The profits were not to go to Abbe or any private stockholders, but were to be plowed back into the enterprises, except to the extent that any remaining

surplus might be expended to assist the community (Jena), where the entire works were then located. Dr. Abbe's intent not to establish a charitable or eleemosynary institution is confirmed by his own independent writings with respect to the above-quoted Section 1 of the Statute:

> "The Carl Zeiss Foundation shall in no respect, particularly not with regard to the social tasks assigned to it under A in the third paragraph, assume the character of a 'charitable foundation.'
>
> ". . . For the purpose of my efforts is by no means to foster <u>charity</u> within the area of my activity but solely: to foster the legal position of all those who have entered into this area or will in the future enter it." (Abbe, <u>Collected Writings</u>, Vol. III, p. 331 (1921))

Thus, although Dr. Abbe believed that the commercial enterprises had a social obligation to the community, this grew out of, and was based upon, the fact that enterprises were then located there in their entirety, and not because of a desire to establish a charitable institution. The detailed charter and explanatory writings, when considered in the light of the undisputed surrounding circumstances, compel the inference that if the enterprises were <u>forced, for reasons beyond the control of their management</u>, to move their administrative center and activities to some other location in Germany, Dr. Abbe, who was devoted to the development of optical science, industry and

technology, would have desired the enterprises to continue in the new locations, provided the basic tenets of the charter could be substantially respected.

The Foundation Statute established a rather elaborate structure for the management of the commercial enterprises forming the basis of the entity's existence and such non-industrial assets as might be acquired in furtherance of the community purposes connected with those enterprises. Running through these detailed provisions is a desire for permanency, continuity and a cooperative impersonal ownership, to be achieved through use of a series of "checks and balances" in the appointment, powers, and removal of management personnel and through specific assurance of certain rights to the workers.

Under the Statute the Zeiss and Schott firms were to carry on their respective business activities permanently under their own "firm" names with their separate assets, each under the direction of a separate "Board of Management" (Section 6). The great majority of the Statute's sections pertain to the activities and management of these two commercial enterprises. A "Special Board" was to administer the non-industrial assets of the Foundation and to supervise directly the non-commercial activities specified by Section 18, see above. A "Foundation Deputy" appointed by the Special Board was to represent it on

the Boards of Management of the individual commercial enterprises, to keep himself informed of their affairs, and to supervise them; however, he had no power to intervene directly in their management, although he had to be consulted and his consent obtained with respect to certain specified matters and as to all matters on which the members of a Board of Management did not unanimously agree. (Sections 11, 12, 14-18).

Each Board of Management was to consist of three or four members appointed by the Special Board irrevocably for life or a fixed period (Sections 4, 7, 27), with one member of the Zeiss Board to sit on the Schott Board as well. Only an employee of the Zeiss or Schott firms having a lifetime contract of employment was eligible for appointment to the Board of Management of that firm. Two members of each Board were appointed by the Special Board as the "Mandatory" and "Deputy Mandatory," each authorized to represent the Board in dealings with third persons; in addition, any two Board members were so authorized jointly. Membership on a Board could terminate only by voluntary resignation accepted by the Special Board, by expiration of a fixed period of appointment, or by termination or cancellation of the requisite lifetime employment contract, which could be effected only for gross violation or neglect of duty or disreputable behavior.

Under the Statute the functions of the Special Board were to be performed by "that Department of the State Service of the Grand Duchy of Saxe-Weimar under which the affairs of the University of Jena are, for the time being, placed" (Section 5). In the event of "political changes in the State" the functions of the Special Board were to be carried out by "that department of State which with regard to the University of Jena occupies the place of the State Department of the Grand Duchy acting as the Special Board, provided that its seat is in Thuringia otherwise by the highest administrative authorities in Thuringia" (Section 113). In the event that there was no Special Board as provided by the Statute, its functions were to be assumed by the Zeiss Board of Management until they could be transferred to a new Special Board (Section 114).

In view of developments that later occurred in 1948, a half century after the Zeiss Foundation was established, which give rise to issues between the parties (we refer to the 1948 expropriation of the Foundation's assets by Soviet authorities and the operation of them thereafter as "peoples-owned" or "state-owned" enterprises), it is important to point out that Dr. Abbe did not intend the Foundation to be a state-owned or state-operated enterprise or entity. The proof is clear that although a state agency was designated as the Special

Board, this was devised as a means of assuring continuity of an essentially private entity, since the agency would service management personnel and presumably continue to exist indefinitely. However, this was not intended to give the Foundation a governmental character. The state agency, in effect, was thus obligated to act as a private person in exercising the functions of the Special Board, and its exercise of powers as the Special Board must be distinguished from its functioning as a governmental au rity under German law to supervise generally the activities of all foundations in order to insure that they did not violate their charters. Although in the eyes of many Dr. Abbe demonstrated a far-sighted and progressive social consciousness in providing that profits were to be plowed back into the enterprise and devoted to improvement of the lot of workers in it, with any remainder to help those community activities directly affecting the business and its employees, it must not be forgotten that he lived in and contemplated a world of free enterprise and private capital, rather than one in which his business would be owned or operated by a socialist or communist state. This he made clear in his Explanatory Notes, written in 1900 and intended to be affixed to the Statute:

> "As a juristic person the Carl Zeiss Foundation, like any other foundation, is under government supervision, and since the juristic person can in practice act only

through its governing bodies, these bodies are under such supervision.

* * * * *

"Since, however, the general government supervision is only concerned with legality, regularity and compliance with the Statutes, no governing body of the Foundation in the performance of acts in accordance with the Statute is subject to the supervision or influence of any government authority, and this also applies to the [Special Board] of the Foundation." (P. Ex. 94, pp. 1114-1115)

The private nature of the Foundation was later confirmed in 1948 (after it had been expropriated by Soviet authorities) by Dr. Hugo Schrade, Soviet-appointed head of the Peoples'-owned defendant V.E.B. Carl Zeiss, who stated:

"When we can therefore realize from Abbe's own words that he actually never meant or wanted to designate his institutions as socialistic, but on the contrary, rejected socialism and invited people to fight it with a special program of his party, we must also realize that a socialist plant cannot be imagined under bourgeois capitalism, but is tied to a socialistic social order. The communization of the means of production is one of the main points of this order and signifies the transfer of ownership to the people. But there could be no ownership by the people under the at-that-time monarchical Weimar Government, and for various reasons, Abbe refused in the end to create a government-owned business which would have been possible at the time. The depersonalization of a business through the creation of a so-called legal person, as performed by Abbe in the by-laws, is not communization, however, since it is up to the representatives of this legal person to do business in accordance with the laws in force and the interpretation of the provisions of the

by-laws, which means as capitalists, since under the capitalistic system, no different type of activity is possible. In this connection it must still be taken into consideration that public accounting, as demanded for instance of corporations, could be omitted. This ought to make it clear that the Foundation plants were not, and could not be, socialist plants." (Emphasis supplied)

In addition to the Statute's complex provisions for the organization of the Zeiss Foundation, it also contained what were, for its time, enlightened provisions for the protection of its employees, including regulations as to hours of work, overtime, holidays, sick pay, severance pay and pensions, and guarantees against discrimination on political or religious grounds. With regard to any surpluses remaining after satisfaction of the obligations under Section 1A, entitled "Within the Works," detailed provisions govern their expenditure "in favor of organizations and measures in Jena - which are suited to promote the personal welfare, the economic position or the comforts of life of the industrial population" (i.e., the workers employed at the Zeiss and Schott Works), and for the furtherance of scientific development through contributions to the University of Jena.

In view of the issues presented by the parties as to whether the Foundation or its "firms" could have any legal existence as entities outside of Jena, which is considered more

fully later, reference must be made at the outset to other relevant provisions of the Statute. The Statute provided that the domicile of the Foundation should be Jena (Section 3), that this provision could not be legally amended or rendered inoperative (Section 121), and that its Works (including the Zeiss and Schott Works) should not be transferred outside the immediate neighborhood of Jena (Section 39). However, it expressly contemplated that "new business undertakings" might be "established or taken over by the Foundation in the future within the German Empire" but that "Should at any time the further continuation of a business of the Foundation falling under the aforesaid provisions be impossible without damaging or endangering the other businesses or even the Foundation itself," the business of such a firm should be liquidated and "the said Firm finally struck off the registers" (Section 37).

The Statute did not expressly contemplate, and contains no provision with reference to, the possibility that the Foundation might not be able to continue its Zeiss and Schott businesses, or Firms, in Jena (either because of failure, destruction or, as later occurred, Soviet expropriation), leaving it the owner and operator of businesses elsewhere. It simply provided that in the event of dissolution of all the Foundation businesses, or a determination that for other reasons there is no

justification for its continued existence, the Foundation was to be dissolved and its assets distributed one-half to the communities in Jena and vicinity and one-half to the University of Jena (Section 116).

Following its establishment the Foundation, thus elaborately conceived as a perpetual entity created by a transfer of property in trust, which would operate various industrial enterprises in an enlightened and humane manner, prospered and acquired numerous corporate affiliates in various parts of Germany including plaintiff Zeiss Ikon A.G. As time passed it developed a world-wide reputation in the optical and precision mechanical field. Meanwhile political changes in Germany resulted in some changes in the administration of the Foundation, which was to survive two World Wars. When the Foundation was established, the Grand Duchy of Saxe-Weimar-Eisenach was part of the German Empire which, under the German Constitution of 1871, had but a very general supervision and control over the laws of its states. Wright, The Constitutions of the States at War, 1914-18, p. 217 (Govt. Printing Office, 1919). In 1920, following Germany's defeat in World War I, the Grand Duchy was dissolved and merged with various other duchies and principalities, pursuant to act of the German National Parliament, into the newly established Land of Thuringia (1920

Reichs-Gesetzblatt, p. 841), a state of the German Federal Republic. Earlier, in 1900, Germany had adopted the German Civil Code, containing, among other things, provisions governing foundations. In 1923, Thuringia, in its implementation and execution of the German Civil Code, adopted an ordinance governing its Land, which included sections dealing with foundations. The effect of the German Civil Code's provisions upon foundations established in a Land, and the interrelationship between the Civil Code, the ordinances adopted by the various Laender, and the earlier laws of Saxe-Weimar, have been presented as issues by the parties and will be treated at a later point herein. For present purposes it is sufficient to note that upon the formation of Thuringia and the disappearance of the Duchy, Thuringian authorities replaced those of the Duchy as the Special Board of the Zeiss Foundation. With the advent of Hitler and the Third Reich the Special Board was the "Reichstatthalter," or Reichs Governor of the Land of Thuringia.

The State of the Foundation Upon Germany's Capitulation in April 1945

With this background we come to April 1945, when Germany capitulated in World War II and was occupied by the Allies. Thereupon the city of Jena was occupied by the armed forces of the United States, who remained for 2-1/2 months, relinquishing control in July 1945 to the Soviet military forces

after it was decided that Thuringia was to be part of the Soviet Zone, pursuant to the Allied Statement on Zones of Occupation, issued on June 5, 1945, which divided Germany into four military occupation zones. At the time of Germany's surrender, the Zeiss Foundation Deputy was Professor Abraham Esau, and its Board of Management consisted of Professor Walter Bauersfeld, Mr. Paul Henrichs, Dr. Heinrich Kueppenbender, and Professor Georg Joos. The Schott Board consisted of Dr. Erich Schott, Mr. Richard Hirsch and Mr. Henrichs. All members of both Boards had been appointed for life, most of the appointments dating back to at least the 1920's. The administrative offices and principal manufacturing establishments of both the Zeiss and Schott firms were in Jena, but Zeiss also had branch establishments in Berlin, Cologne, Hamburg, Vienna, and a number of foreign countries, all outside what was to become the Soviet Zone, and Schott had a branch factory in Landshut, Bavaria, which was within the American Zone. The Foundation itself owned interests in various corporations located outside the area allotted to the Soviets, which engaged in commercial activities directly related to those conducted in Jena, as follows:

Anschuetz & Co. GmbH	100%
M. Hensoldt & Soehne AG	66%
Zeiss Ikon AG	70%
Alfred Gauthier GmbH	80-84%
Friedrich Deckel	30%

R. Winkel GmbH	100%
Hans Kollmorgen GmbH	Not Specified
DESAG (Deutsche Spiegelglas A.G.)	100%
Sendlinger Optische Glaswerke Berlin AG	Not Specified
Breuthaler Quarzitwerke GmbH	Not Specified

In addition to owning the foregoing, the Foundation owned non-commercial properties, almost all located in or near Jena, consisting principally of community facilities available for use by Zeiss and Schott workers, including a hospital, clinic, vacation camp, library, housing, sports fields, and the like. Of 45,000 people employed by the various commercial enterprises in which the Foundation had an interest, including the Zeiss and Schott firms, 30,000 were located outside of Jena or vicinity. Of the 12,000 to 15,000 employed in or near Jena, 5,000 were non-regular foreign or conscript workers who left by June 1945.

The Forced Evacuation of the Foundation's Management by American Military Forces to Heidenheim (Western Zone), and the Board's Arrangements to Leave a Caretaker Management in the Soviet Zone

By mid-June 1945, when it was evident that Jena was shortly to become part of the Soviet Zone, American military authorities, acting pursuant to orders issued by the Supreme Headquarters Allied Expeditionary Force (SHAEF) in Paris, notified the Boards of Management of the Zeiss and Schott firms and approximately 122 top scientific, production and administrative personnel whom Board members were directed to

assemble (described as the "brain" of both enterprises), that they were to be evacuated with their families to the American Zone of Occupation and to assemble and pack a counterpart or sample of each key record and piece of equipment for transportation by box cars to the American Zone. This military move was part of the established policy of the United States to search out leading German scientists under American control and use them in connection with the continuing war effort against Japan. In this instance the plan was to establish a branch factory in the American Zone for that purpose. The proof is clear that under the terms of Germany's unconditional surrender the Boards of Management and other employees were obligated to obey the evacuation order, and that theirs was a forced departure, not a voluntary one.

Although the Board of Management, before being evacuated, did not foresee a division of Germany into two Germanies, or anticipate a prolonged absence from Jena, they did recognize that during their own indefinite absence it would be difficult to manage the enterprise in Jena from the American Zone, particularly in view of the disruption of communications in war-torn Germany, and the uncertainty about the future. Recognizing also the disadvantages of absentee management, they sought to continue and preserve the Jena operations

and assets during their absence by designating three Zeiss employees whom they left behind, Dr. Friedrich Schomerus, Mr. Viktor Sandmann and Dr. Hugo Schrade, to act for them during their absence, and to exercise all essential Zeiss management functions. Similar steps were taken by the Schott Board members (Messrs. Schott, Hirsch and Henrichs), who designated three trusted Schott employees, August Klemm, Albert Heintz and Fritz Dunger, to manage the Schott works during its Board's enforced absence. After a discussion at a June 23, 1945 meeting attended by the Board members, Dr. Schott, just prior to his being evacuated on June 25, 1945, advised Klemm, Heintz and Dunger of their designation.

The Boards' appointment of employees to manage the two works during their absence was permitted by Section 8 of the Foundation Statute, which granted broad powers of delegation to each Board. The Board members being evacuated to the West understood that the Russians would adopt a hostile attitude toward ex-Nazis and accordingly, in selecting three trusted and competent employees to manage the Zeiss enterprise during their absence, chose persons who had never been Nazi party members or sympathizers. On the other hand, although the departing Board members had been Nazi party members, they did not believe that this would affect their three caretakers for

the reason that the leader of the three, Dr. Schrade, was prepared to, and later did, testify that the departing Board members had protected the three from being victimized by the Nazis (even though Dr. Schrade, as the husband of a Jew, had been particularly vulnerable) at serious risk to themselves.

Defendants contend that the Board members, before their departure from Jena in June 1945, orally resigned, and there was conflicting testimony on the subject. As will later become apparent, such a resignation, if it had occurred, might have significantly (though not fatally) affected the capacity of the departing Board members in later years, after Germany was hopelessly divided and the Foundation destroyed in the East by the Soviet Military Administration, to continue it in the West as the organization identified with, and the successor to, the Zeiss enterprise. After carefully reviewing the evidence and appraising the witnesses (including Kueppenbender, Schott and Schrade), we find that the credible evidence establishes that while the Zeiss Board members evacuated to Heidenheim granted broad management powers to Schomerus, Sandmann and Schrade (sometimes called the "three Ss") and later even agreed temporarily to refrain from exercising their own powers as Board members and to permit the latter to hold themselves out as the "Board of Management" in order to appease Soviet occupation

authorities, the Zeiss Board never resigned. On the contrary, before they departed in June of 1945 these Zeiss Board members, who held office for life and could be deposed only for gross violation, neglect of duty, or disreputable behavior, executed formal powers of attorney dated June 22, 1945 which, while designating the three Ss as their representatives and authorizing them to perform the duties and functions of the Board during the official Board's absence, made no mention of resignation.

The Foundation Statute (Section 27) required that a resignation, to become operative, must be accepted by the Special Board. Under German law a resignation is effective only if it is unequivocal and unambiguous. A broad delegation of authority, granted under emergency circumstances, was not the legal equivalent of a resignation. Although a resignation was not required to be in writing, an intent to resign from such important positions as members of the Board would not normally be inferred unless put in writing. In this case, having committed the arrangement between themselves and the three Ss to formal written documents drafted by experienced legal counsel, the Zeiss Board, if it had intended to resign, would undoubtedly have written an unequivocal statement, such as "We hereby resign as members of the Board", which they did not do. The documents executed by them negate any such intent, and there was

proof, including Dr. Kueppenbender's testimony, that the Board never resigned and never intended to resign, which is accepted, corroborated, and found credible. Dr. Schrade, who was permitted to travel from East Germany to New York to appear as a witness, testified that on June 22, 1945 (the date on which powers of attorney were executed by departing Board members in favor of Schrade, Schomerus and Sandmann), Henrichs told him in a private conversation that he (Henrichs) was resigning and, over Schrade's protests, prevailed upon Schrade to accept membership on the Zeiss and Schott Boards in his place. If true, this testimony would be significant. However, we must reject it, not only because of Schrade's obvious interest and his demeanor as a witness, but because it is inconsistent with his prior testimony on the subject. In an affidavit executed by him and used in the London proceedings in 1959, eight years closer to the events in question, he made no mention of such a conversation (obviously of importance) in recounting the same events; and in pre-trial deposition testimony on the subject he not only failed to mention any such conversation, significant and striking as it would be expected to have been, but affirmatively swore that at no time had he ever been told that the departing Board members had resigned. Moreover, Schrade's testimony is unsupported by the contemporaneous diary entry of Dr. Klemm, one of those

designated to manage the Schott works during its Board's absence, which simply states that the departing Boards "leave by order of the American Military authorities, Jena as of today". Lastly, it is significant that although formalities were being observed through the preparation of formal legal documents by competent, experienced lawyers and these documents were executed by the Board members before their departure, nowhere do they contain even the simplest reference to resignation (e.g., "We hereby resign as Board members"), but they are limited to delegation of powers of attorney necessary to enable the new temporary management to act as such, legal steps which would have been unnecessary if the departing Board members had resigned.

For the foregoing reasons the Court also rejects Schrade's testimony as to a statement made by Dr. Barth on June 27, 1945 to the effect that the departing Board members had resigned. Such rejection is mentioned for the reason that notwithstanding the Court's refusal to admit it for the truth of what was said, since it constituted hearsay, defendants' counsel, disregarding the Court's ruling, insist on using it in support of their contention as to resignation.

Defendants attempt to explain away the execution of the powers of appointment and prokura, and the absence of any written resignations, on the theory that after the execution of

the powers and before their evacuation the departing Board members changed their plan to appoint the three Ss (Schomerus, Schrade and Landmann) as caretakers only, and decided that it would be necessary to resign completely and have the three Ss appointed by government authorities rather than risk Soviet disfavor by revealing the true situation, namely, that the three Ss were deriving their authority from ex-Nazis. This theory is rejected as lacking credible support. It appears that on June 9, 1945 the United States Armed Forces attempted to set up a provisional, or ad hoc, government for Thuringia by appointing one Herman Brill Prime Minister. On June 21, 1945 a Dr. Walter Wolf, representing himself to be Minister of Education appointed by Brill, purported to appoint Dr. Arno Barth Deputy of the Foundation, and on June 23, 1945 Barth appeared at the Schott works at Jena and attended a meeting with various Schott representatives, including Dr. Schott and Henrichs, which was also attended for some 20 minutes by Dr. Kueppenbender after the meeting was in progress. There was no discussion with Barth or anyone else, either at this meeting or prior to the evacuation of the Board members on June 24 and 25, about any resignation. Although Eduard Heintz, chairman of a workers' committee who attended the meeting, testified on deposition that there was mention of appointment of new Board members, Dr. Erich Schott,

who testified in person at trial, swore that the reference was solely to designation by Schott of representatives to act in the Board's absence, a version which is accepted as credible.

After the evacuation on June 24 and 25, 1945 of the Zeiss and Schott Boards of Management by military order from Jena to Heidenheim in Wuerttemberg (American Zone), Barth and the caretakers appointed to act in the Boards' absence decided to make it appear to the incoming Russians that the caretakers were appointed as Board members to replace the real members who had been evacuated rather than reveal their own limited authority. This decision may have been made for the reason that the caretakers did not have as much confidence as the departing Board members in being able to explain the latter's political connections; or the caretakers may have decided to take advantage of the unique opportunity to usurp the real Board members' positions in their absence. Since Barth was free of any Nazi taint, having been imprisoned in a Nazi concentration camp, an appointment by him would not be suspect. Accordingly, on June 27, 1945, after the two Boards had been evacuated, Dr. Barth caused written instruments to be prepared purporting to appoint Messrs. Schomerus, Sandmann and Schrade as members of the Zeiss Board, and Messrs. Albert Haintz, Fritz Dunger and Dr. August Klemm (Schott employees) and Dr. Schrade, as members

of the Schott Board, despite the fact that the evacuated life-time members of both Boards had not resigned. These appointments were for two years, conditioned on the appointees' agreement to resign upon the official Board members' return to Jena. For a number of reasons, however, these appointments were not effective to constitute the appointees lawful members of the Boards. First of all, the official members had not resigned. Moreover, the purported appointments were not made by a Special Board (as required by Section 4 of the Statute) but by a purported Deputy, Dr. Barth. Furthermore, the appointees did not hold fixed or lifetime employment contracts (required by Sections 26 and 59 of the Statute before such appointments could be effective) and they probably violated Section 27 of the Statute, which prohibited appointments "with the option of revocation", since the appointees agreed to resign upon the official Boards' return to Jena. Lastly, it is questionable whether the so-called "Brill" regime in Thuringia, which assumed control in June 1945, prior to the arrival of Soviet authorities, was lawfully established pursuant to any law or Allied treaty or agreement permitting such establishment in an area agreed upon by the Allies as a Soviet Zone.

Defendants offered hearsay evidence indicating that on June 9, 1945, a representative of the VIII United States

Army Corps, during its brief sojourn in the area, purported to appoint Dr. Brill Prime Minister of a new government for the Land of Thuringia. Four days previously, however, an agreement had been consummated by the Allies, which designated Thuringia as part of the Soviet Zone and resulted in the American forces turning it over to the Soviet forces on July 1, 1945; and it was not until July 16, 1945 that the Soviet Military Administration, apparently disregarding an intervening notice dated July 2, 1945 signed by Brill announcing the formation of a new government for the "province" of Thuringia, proclaimed the establishment of a new government for the "Land" of Thuringia, with a Mr. Rudolph Paul as its President.

Thus the picture upon transfer of Jena from American to Soviet control was one of understandable confusion in which an ad hoc temporary governmental authority (Brill, Wolf, Barth, et al.) joined forces with equally tenuous ad hoc temporary Zeiss caretakers (Messrs. Schrade, et al) and, in anticipation of the impending Soviet occupation, attempted to give themselves some sort of legal standing that might be acceptable to the Russians, despite the fact that the official Board members never resigned. After careful review of the evidence the Court rejects defendants' argument that the departing members of the Zeiss Board were motivated to resign by the fact that they had engaged

in Nazi activities during World War II, cooperating with Nazi officials in the production of military supplies and equipment for prosecution of the Nazi war effort, for which Kueppenbender received titles and awards, and in the employment of conscript labor, including Russians. Defendants argue that in view of this offensive conduct it may be inferred that they believed that the incoming Soviet military administration would not countenance their continuation in office but would remove them and take reprisals in Jena. Much of the "evidence" relied upon by defendants consists of hearsay which they persist in citing despite its rejection by the Court. Although it cannot seriously be doubted that the Zeiss management was forced, as Dr. Kueppenbender himself testified, to lend its facilities and talents to the Nazi war effort, there is also evidence that Kueppenbender helped Jewish employees of Zeiss during the war, including Dr. Schrade who acknowledged this, and that in two separate war crime hearings (American and German) later held in the American Zone the Zeiss Board members were cleared of any Nazi criminal activities. While Kueppenbender and other members of the Boards were undoubtedly apprehensive — and with justification — about what the Soviet military forces would do to Zeiss when they took control of Jena in 1945, they did not believe that a resignation was required. Otherwise these experienced

businessmen with competent Zeiss staff legal counsel at their sides (Drs. David and Schacht) would have executed a simple resignation to be shown to the Russians.

Purported Appointment of New Boards of Management Upon Jena's Becoming Part of the Soviet Zone in July 1945

On July 1, 1945 the military forces of the United States turned over control of Thuringia (including Jena) to the Soviet Armed Forces, who established Dr. Wolf as Minister of Education for Thuringia, which had the effect under the Zeiss Statute of constituting him the Zeiss Special Board. Barth became the Stiftung Deputy under the new administration and continued the new Zeiss and Schott appointees as their Boards. The next three years were to see many new and unforeseen developments that would work drastic and profound changes in Jena, in the Zeiss and Schott works, and in relations between the Soviet and Western Zones and those living in them, including Zeiss officials. Within a year and a half after its occupation of its Zone, the Soviet Military Administration set about seizing and dismantling most sizeable plants, including 94% of the industrial works in Jena, which were shipped to Russia as war reparations. Hand in hand with this massive destruction of German industrial capacity in the Soviet Zone went the establishment of an entirely new political, economic and social order,

patterned after communist or socialist lines. The objective of these efforts, of course, was to punish the Germans for their unjustified and brutal infliction of World War II upon the Allies and to assure that Germany would never rise again as a war potential or at least that if it did so, the political and economic complexion of the Soviet Zone would be sufficiently altered to create a bond or alliance with the U.S.S.R. that would avoid any future German threat to the Soviets. The ruthlessness with which the Soviet authorities confiscated property in East Germany under the guise of reparations soon led to criticism and protest by American authorities as a violation of the Yalta and Potsdam Agreements of 1945 and as contrary to Allied policy which, while recognizing the necessity for taking certain essential steps required to demilitarize Germany, favored post-war reconstruction of a demilitarized Germany as an independent country operating with a free private enterprise-type of economy, in contrast to the communization in the Soviet Zone. Documents on Germany 1944-61, Committee on Foreign Relations, U.S. Senate, 87th Cong., 1st Sess. (1961), p. 85. Furthermore, the United States was acutely conscious of the fact that as a signatory to the Hague Convention it could not, either by the Potsdam Agreement or otherwise, sanction confiscation of private property without compensation in its Zone.

36 Stat. 2277, 2295; Treaties in Force (1867), p. 301; U.S. Const. Art. VI; Restatement (Second) Foreign Relations Law §§141, 144; Arts. 42-51, Hague Regulations Feilchenfeld, The International Economic Law of Belligerent Occupation (1942) §13, p. 5.

The Soviet's remaking of its Zone to its own political and economic likeness was accompanied by a rapid deterioration in United States-Soviet relations, resulting in the erection of the "Iron Curtain." When the Board members had departed from Jena in June 1945, it was thought that they would shortly return. During the interim the caretakers would do whatever was required, keeping the Board informed to the extent possible under the circumstances. The Board members in Heidenheim would, of course, have charge of whatever Zeiss facilities were located in the West, including whatever was to be built in or near Heidenheim to help the Americans in the war against Japan. As Soviet-American relations deteriorated, strains were placed on the Jena-Heidenheim arrangement. Nevertheless the Board members in Heidenheim, despite the development of strained relations with Jena, anticipated an eventual reunification of Germany, and did not contemplate resignation because of the delay. Soon, however, it became apparent that the arrangement would have to be modified in an effort to satisfy the Russians.

Dispute Between the Boards in the American Zone and Their Designees in the Soviet Zone Leading to Agreement to Hold Out the Jena Caretakers as Board Members in Order to Appease the Russians

Shortly after the evacuation of the Zeiss Board to Heidenheim Schomerus wrote Henrichs that the Deputy (Barth) had purported to appoint a new Board of Management and on July 2, 1945 Schomerus executed a power of attorney, as a member of the Board, to Messrs. Gerhard Kuehn and Erich Schreiber in the West authorizing them to act for the Carl Zeiss firm. It is unclear, however, how long this letter and power took to reach the West in the turbulent times then prevailing, except that Kueppenbender testified that he did not learn from Henrichs of Schomerus' communication until April 1946, eight months later, and Schott testified that he learned only in early 1946 of the purported appointments of Dunger, Klemm and Heintz as members of the Schott Board. Thus it appears probable that the Boards in Heidenheim did not learn precisely what their designees and Barth were doing in Jena until many months later. But even if they had learned of it, they undoubtedly appreciated that such purported appointments were ineffective to oust the real Boards of their positions, and that since the latter had been forced temporarily to delegate broad powers to their designees to act in the Boards' absence, whether the designees chose to call

themselves "members of the Board" in order to appease the Russians was of no great moment as long as they understood that they exercised their authority only by sufferance of the real Boards in Heidenheim, who had the right to revoke the delegation of authority at will. At the outset the Boards in Heidenheim took the position that while they had delegated to the Jena group broad powers to exercise Board functions in dealing with the Russians during the inability of the regular Boards to act because of their confinement to the American Zone, they (the Board members in the American Zone) were the official Board, entitled as a matter of duty to continue exercising their functions outside of the Soviet Zone and that it was equally important to maintain the friendship of the Americans in the West, where the Foundation had extensive assets and Western occupation authorities were assuming the redevelopment of the economy.

When this view was expressed by Henrichs, Hirsch and Schott in a letter dated October 12, 1945 to the Schott management in Jena, Dr. Barth and the Jena group became alarmed, apparently because of fear of Soviet reprisals if the actual relationship were revealed. Although there were very substantial Foundation interests in the West and the prospect for successful redevelopment of Zeiss business there appeared favorable, they

feared that any step toward independence for these interests, including such manufacturing center as might be built in Heidenheim (to which 122 of the Foundation's top personnel had gone and others had follow[illegible]), entailed the risk of a Russian takeover in Jena that would terminate hopes of salvaging Zeiss interests in the Soviet Zone. Furthermore, unless the Jena group was recognized by the Russians as having authority to act with respect to Foundation interests in the Western Zones as well as in the Soviet Zone, it might be ousted by the Soviet occupation authorities and replaced by communist functionaries hostile to the Foundation Statute and its tradition. Accordingly steps were taken to prevent the assumption by the Board members in Heidenheim of control over the Foundation's interests in the West. Barth's first move was an attempt to legalize the ineffective June 27, 1945 appointments of the three Ss and Heintz, Danger and Klemm as Board members. First he wrote to Dr. Wolf, suggesting that the deported Board members might be removed because of their Nazi party membership during the war, and obtained a letter from Wolf, dated November 16, 1945, approving retroactively the June 27, 1945 agreements between Barth and the three Ss appointing them Board members. In a belated attempt to comply with Section 26 of the Foundation's Statute, lifetime employment contracts were entered into between the Zeiss firm and

Drs. Schrade and Schomerus on November 20, 1945, stating they were effective retroactively as of June 27, 1945.

On December 27, 1945, Barth requested the President of Thuringia to dismiss the Heidenheim Board members because of their establishment of competition in the American Zone, pointing out that the positions of the Heidenheim group as "members of the Boards of Management ... has not been taken from them" and that "they look upon themselves as the only competent Board of Management", which tacitly recognized that the official Boards in Heidenheim had not resigned.

The dispute between the Board in Heidenheim and the caretakers in Jena led Sandmann to arrange a meeting with Henrichs at Heidelberg in the American Zone on December 28-29, 1945, at which Sandmann expressed the desire to avoid Russian dismantling of the Jena plants, which might follow establishment of Zeiss plants in the West. According to his own minutes, Sandmann took the position that the Heidenheim Board must be considered "suspended", whereas Henrichs asserted that it "considers itself as still holding office because it has been appointed for lifetime and there are no reasons for discharge." Undoubtedly under pressure from the Russians, who considered capitalist influence from the West unacceptable, the Jena group, on January 12, 1946, wrote what has very appropriately been

characterized as a "blackmail letter" to the Heidenheim management. It advised the letter that the Special Board in Thuringia had drafted a proposed dismissal of the Heidenheim members of the Board (a copy of which was attached) because of their past membership in the NSDAP (Nazi Party) and Nazi activities, and that unless the Heidenheim Board voluntarily gave up their appointment as members of the Board, the dismissal would be put into effect. Although the letter referred to the willingness of the Jena group to "resign" when the Heidenheim management returned, the term "resign" was not used in the request to Heidenheim.

The "blackmail letter" of January 12, 1946 was a skillfully contrived piece of duress, designed opportunistically to take advantage of the predicament in which the Boards in Heidenheim found themselves, and to apply pressure accordingly. For at that time the Board members in Heidenheim were facing investigation and proceedings by both American and German Boards in the American Zone to determine whether they had participated in any Nazi war crime activities. In order to clear themselves (or be "de-nazified") they were relying on help from Schomerus and Schrade in Jena, who could corroborate the fact that during World War II, at considerable risk to themselves and in spite of directives to the contrary, Drs. Bauersfeld, Kueppenbender and

Erich Schott had failed or refused to obey Nazi directives with respect to Zeiss employees, had shielded Jewish employees in Jena, and their relatives (including Schrade, whose wife was Jewish), from seizure and abduction to Nazi concentration camps, and had helped them in other ways. Now the Heidenheim Board members were faced with the threat that unless they agreed to recognize the Jena management as the only Board, they would be dismissed on the basis of a new law in Thuringia aimed at purging Nazi elements from industry. Such a dismissal might not only affect the Heidenheim Board members in the pending proceedings in the West but lead Schomerus and Schrade to withhold their essential cooperation in the impending denazification proceedings. Furthermore the effect of such a dismissal in absentia would be to prevent the Heidenheim Board members from acting on behalf of the Zeiss and Schott firms in the West for the reason that it would lead to cancellation of their registration as authorized representatives in the Commercial Registers of the principal cities in the West, which would automatically follow cancellation of such registration in Jena, still recognized as the domicile of the Foundation and of its Zeiss and Schott firms.

Since the "blackmail letter" was apparently to be shown to the Russians, Sandmann wrote a private personal letter on the same day to Henrichs expressing his pain at having to write the

blackmail letter but stating that "under the present circumstances" it represented the only solution and, if accepted, would result in the Jena representatives giving powers of attorney to the Heidenheim gentlemen enabling the latter to act. Then he added the following significant paragraph:

> "What legal points of view will result for you and the other gentlemen in such measure I must leave to your personal judgment. However, nothing will change the basic attitude of the gentlemen here with regard to the agreements of June, 1945." (P. Ex. 294)

The "agreements of June, 1945" appear to us to refer to the caretaker arrangement established before the Boards were ordered out of Jena in June. There is no evidence that Barth's June 27, 1945 agreements purporting to appoint the caretakers members of the Boards, and Dr. Wolf's letter of November 16, 1945 approving them, were then known to the Board members in Heidenheim.

The reply of the Heidenheim management dated January 28, 1946 was carefully prepared to create an impression that might satisfy the Soviet authorities and yet not constitute a resignation. Although it stated that the writers (Bauersfeld, Henrich and Hirsch) recognized the Jena group as the one and "only Board of Management", it studiously refrained from stating that the Heidenheim group were resigning or tendering resignations. Instead, it stated that a resignation was pointless, since the writers were not exercising the functions of the Board,

which were being exercised by the Jena group. The purpose of the letter was to enable the Jena group to hold itself out as the Board if such was necessary to appease the Russians, in the hope of avoiding the destruction of the Foundation and its works in the Soviet Zone. If the Heidenheim group had intended to resign, they would have written a simple one-line resignation instead of a long document that is a study in circumlocution. The Heidenheim group, however, simply agreed to refrain from exercise of its Board functions and to hold the Jena group out as the only Board.

If the Heidenheim Board members had resigned in June 1945, as defendants urge, the entire chain of events beginning with their October 12, 1945 letter to Jena, Sandmann's visit to the West, the exchange of correspondence, and Dr. David's visit to Jena in February, 1946, were meaningless superfluities. But even if one accepts the view that these latter events were intended to button down some resignations by the Heidenheim Board members, they failed to achieve any such purpose. The January 28, 1946 letter was not dispatched by mail but was delivered to the Jena management personally on February 11, 1946 by Dr. David, the Foundation legal counsel in the West who explained the purpose of the letter to the assembled members of the Jena managements of Zeiss and Schott, including Dr. Kleum,

who recognized the status and relationship of the Heidenheim Board in his contemporaneous diary entry with respect to a meeting with Barth two days later, in which he noted:

> "3. A. Mt. [Heint.] asks about the legal position of the old Board of Management in Heidenheim. Opinion of the Foundation Deputy: The Heidenheim people are to be considered as suspended." (Emphasis added)

Although Dr. Schrade, in the London proceedings and in the pre-trial depositions, denied that Dr. David visited Jena in February 1946, it is now established by David's testimony and Klemm's diary (uncovered only recently) that on February 11, 1946 Dr. David did hand deliver, and personally explain, the January 28, 1946 letter, pointing out that the Heidenheim Board was not resigning but foregoing exercise of its powers in order to assist the Jena managements in dealing with the Soviet military authorities. While this Court does not accept in toto Dr. David's recollection of that visit, and specifically his testimony as to instructions with respect to disposition of the letter if certain events should occur, his general recollection is otherwise found credible and corroborated. In view of the fact that Dr. Schrade's earlier denials under oath (upon which the High Court in London rested so heavily in its decision) are now thoroughly disproved, as is his testimony with respect to a conversation with Henrichs on June 22, 1945, his testimony on

this subject must also be rejected. Since a resignation (which, to be effective under German law, must be unambiguous and unequivocal) was not forthcoming, the Heidenheim group remained the official and legal Boards, with the power to terminate at will the broad authority delegated to the Jena gentleman (pursuant to Section 8 of the Statute) for the purpose of trying to hold the Foundation together.

The makeshift arrangement served temporarily to appease the Russians. The Jena management, although but caretakers, maintained its appearance as the Boards of Management to the Russians, thereby avoiding removal by the Soviet occupation authorities and replacement by communist functionaries, but secretly recognized the Boards in Heidenheim as the official management by not requiring a resignation, by not pursuing their removal, and by assuring them that upon their return to Jena they would resume actual management of Zeiss business in the Soviet Zone. In the meantime the Boards in Heidenheim continued to lend themselves to the facade for the purpose of avoiding Soviet seizure by acting in the West under the powers of attorney from Jena rather than asserting their true powers as the Boards. Since the powers of attorney were irrevocable and increased to a term of five years, the Boards in Heidenheim were thus able to operate independently in rebuilding Zeiss interests in the West

and with their "de-nazification" by both American and German boards in 1947 the threat of Soviet removal, confiscation or other drastic action lessened.

The Jena and Heidenheim managements also continued to conduct their correspondence and relationships accordingly for the next two years, with the Jena group signing documents and correspondence as the Board in addition to granting powers of attorney to the Heidenheim group to act in the West. That the Heidenheim group had no intention of resigning and was privately considered to be the real Board is attested to not only by the fact that the Jena management, which frequently described itself as the "Jena" Board (impliedly recognizing the status of the "Heidenheim" Board), discussed and cleared major decisions with it, but also by David's contemporaneous memorandum of a January 1947 meeting in Oberkochen with Sandmann (visiting from the Soviet Zone), Bauersfeld, Henrichs, and himself, which was one of those rare occasions when a member of the Jena management was permitted to visit the West and personally discuss Foundation affairs with the Heidenheim Board. The visit was made to discuss objections on the part of Jena to a declaration which Knoppenbender had made to Zeiss employees in the West regarding their pension rights. In his notes made at the time of the meeting, David significantly stated:

"Sandmann accepts this explanation [of the declaration regarding pension rights], but requests that such declarations should only be issued by Jena and not on the basis of the power of attorney; Jena is very 'sensitive' on this point.

"Bauersfeld rejects this reasoning with agitation and great poignancy. If anyone has cause to show sensitivity and to complaint about the business policies of the Jena Board of Management, it would be the Heidenheim members of the Board of Management together with the Carl Zeiss group." (Emphasis added)

The Soviet Destruction of the Foundation's Capacity to Function in the Soviet Zone by Seizure and Expropriation of its Commercial Assets and Operations

The efforts to appease the Soviet authorities eventually failed. In December, 1945, the Soviet Military Administration (by Order No. 124) sequestered the assets of the Zeiss firm, designating Dr. Schrade as sequestrator. Beginning on October 22, 1946 the Zeiss plant in Jena was almost completely dismantled as reparations (the Zeiss plant having supplied equipment for the Nazi military effort). During the next year 94% of its equipment, and more than 300 of its employees, were shipped to the Soviet Union. Although Thuringian authorities partially rebuilt the Jena plants, a Soviet-established Land Expropriation Commission in Thuringia, of which Schrade was a member, voted in the spring of 1948 that all assets of the Zeiss and Schott firms should be expropriated. On April 17, 1948 the recommended

expropriation was ratified by Order No. 64 of the Soviet Military Administration and on June 1, 1948 it was confirmed by decree of the Government of Thuringia. The expropriation decree confiscated without compensation all sequestered assets of the Zeiss and Schott firms and "all other assets" that had been sequestered, including its trademarks, and purported to seize all such assets outside the Soviet Zone, including those in the West and elsewhere.

In view of the defendants' contention that trademarks were not expropriated, it should be noted that trademarks were expressly included in the original sequestration Order No. 124, and incorporated by reference in the June 1, 1948 decree, which provided that the expropriation covered "Optical Mechanical Works Zeiss, Jena, as well as all other assets which had been 'sequestered in accordance with Order No. 124,' without exception" (emphasis added). Among the "other assets," for example, were the United States trademarks "Zeiss", "C.Z.", the words "Carl Zeiss Jena" in a distinctive lens frame, and the distinctive lens frame alone, which had originally been registered in the name of "Firm of Carl Zeiss, of Jena, Germany" or the name of "Carl Zeiss, of Jena, Germany" before being vested by the Alien Property Custodian. In addition, decrees of the German Economic Commission carrying out Order No. 64 provided that

trademarks were to be included in sequestered businesses to be expropriated, unless excepted, and Drs. Schrade and Schacht testified that, no exception having been made, the trademarks became the assets of the Peoples'-Owned Enterprise (VEB) formed by the Soviet authorities to take possession of the assets of the Zeiss firm. The inclusion of trademarks in such expropriation decrees as a matter of recognized principle under the law of the Soviet Zone was further confirmed by testimony of defendants' own expert in such law, Dr. Hans Nathan, and by decisions of East German courts interpreting such expropriation orders of the Soviet Military Administration. (See decision of Supreme Court of East Germany in the "Thompson" case, Oct. 5, 1953, holding that expropriations pursuant to Soviet Military Administration Orders 64 and 124 divested the owner of his trademark rights, P. Ex. 81, p. 7.)

In questioning whether the Soviet expropriation was without compensation, defendants point to no evidence that any payment of any sort was to be made or was in fact made for the seized assets, either by the VEBs who acquired possession of the assets in the Soviet Zone, by any governmental authority or agency, or by anyone else. Such payments as were made by the VEBs to the resurrected "Foundation" in Jena after 1954 were not compensation for seized assets but an effort to create the

appearance of continuing the existence of the original Foundation, which is dealt with below. On the other hand, Article 24 of the East German Constitution, adopted in 1949 (only a year after the expropriation), provided that

> "Enterprises owned by war criminal and active National Socialists have been expropriated and will be transferred to the people's ownership (without compensation)."

Thus the expropriation constituted a taking of private property without just compensation. United States v. Miller, 317 U.S. 369 (1943); Restatement (Second) of Foreign Relations Law of the United States, §187. Defendants' contention that the confiscation was justified on the ground that the Zeiss works had been used during World War II to manufacture material for the Nazi war machine must be rejected. It overlooks the fact that by way of reparation the Russians had already dismantled and shipped 94% of the works to Russia, and that they had been rebuilt thereafter by the Zeiss workers themselves with the aid of 50 million marks appropriated locally by the Thuringian Parliament.

The existence of the Foundation as a viable entity in the Soviet Zone depended upon its ownership and operation of the Zeiss and Schott commercial and industrial properties, which were planned and contemplated by its founder, Dr. Abbe, as the source of the profits to be used in accordance with the Statute's

detailed terms and conditions. The commercial enterprises constituted a sine qua non of the Foundation's entire purpose and function. Without them there was no sense in continuing in existence the offices of Boards of Management, Mandatories, Deputy and Special Board, which were created by the Statute and given carefully specified authority as organs needed to manage the Zeiss and Schott business enterprises, both externally and internally. That ownership and operation of these commercial enterprises by the Foundation was essential to its existence is recognized by the Statute, Section 37 of which prohibits alienation by sale or assignment of the enterprises, either in whole or in part, and Section 116 of which provides for dissolution of the Foundation if it should no longer possess any enterprises "whose continued conduct would not constitute mere administration of property".

Thus the Foundation's capacity to function in the Soviet Zone in accord with the Abbe Statute was completely destroyed by the Soviet expropriation decree, which finally and unequivocally stripped it of its commercial enterprises, which were the source of its existence in Jena, thereby working a basic change in substance, not merely one in form. Beginning in June 1948 and continuing until May 1951 the Zeiss and Schott enterprises in Jena were transferred from the Foundation to the V.V.B. Optik, an

association of peoples-owned enterprises engaged in manufacture of precision mechanical and optical instruments. On November 30, 1948 the firm name Carl Zeiss was cancelled in the Commercial Register of the County Court of Jena, and a new entry was made stating that the firm was the "property of the people", in line with the Soviet authorities' socialization of the East. This was followed by a further entry on November 20, 1949 changing the name of the firm to "Optik Carl Zeiss Jena VEB," meaning "peoples-owned enterprise". In May, 1951 the Zeiss and Schott enterprises were separated by the German Democratic Republic from the V.V.B. Optik association, and converted into independent V.E.B. entities under the direct supervision of the Ministry of Machine Construction in East Berlin, subject to control by other East German governmental agencies. Appointed by East Germany as the "Works Director" of both VEB enterprises, Schrade was responsible solely to the Ministry for Machine Construction, and not to the Foundation or to any Board of Management, Deputy, or Special Board.

Thus the Soviet expropriation sounded the death knell of the Foundation's capacity to operate in the Soviet Zone. Conceived and operated since 1889 as a private entity, to be free from state control, and dependant upon profits from its commercial enterprises, it now had no such enterprises in the

Soviet Zone, no profits, no surplus, and no right to engage in operation of commercial ventures for profit, by reason of the acts of a communized state that decried such an entity as bourgeois capitalism which must be wiped out in favor of enterprises owned by the people rather than by a foundation. Thus expropriation, with peoples ownership and state operation of the Zeiss and Schott works, rendered the Statute incapable of functioning in the Soviet Zone and terminated the Foundation's existence as a viable operating entity in the East. Without any commercial assets or operations in the East, or its capacity to function there in the management of its commercial assets, it became a nonentity there.

The terms of the Soviet expropriation decrees, which confiscated the Zeiss and Schott works "and all other assets" disclose clear intent to seize all commercial assets associated with the two "firms," wherever situated in the world, including Zeiss and Schott branches in the West and the various commercial assets held directly in the name of the "firms" or affiliated with them. The record is unclear, however, as to whether the Soviet expropriation decree encompassed the Foundation's non-commercial assets. But even if it continued as the title-holder of non-industrial assets, this would not alter the devastating effect in the East of its loss of its commercial properties

there, profits from which were required to support its community endeavors in Jena. The properties in Jena were thenceforth not to be managed by a Deputy and Boards of Management but by direction of the state, which specified what funds would be appropriated and furnished for their continued operation. The Abbe Statute never authorized a state-directed and state-controlled eleemosynary institution. On the contrary, Abbe expressly stated he did not intend such an enterprise.

The legal incapacity of the Foundation in the East was confirmed by testimony of the legal expert offered by defendants, Prof. Hans Nathan, to the effect that under the law of the Soviet Zone the expropriation of such an entity's assets terminated its existence as far as authorities in the East were concerned, without necessity for a formal act of dissolution, and that even if the Foundation were left with some non-commercial assets it would be considered obsolete if it were unable to function. His testimony was corroborated by that of Dr. Hans H. Richter, former Legal Adviser to the Minister of Machine Construction in East Berlin, which later had direct jurisdiction over the Zeiss and Schott VEBs, and Dr. Wilhelm Schacht, inside legal counsel for the Foundation and later for the VEBs, both of whom confirmed that the East German authorities considered the Foundation to be extinct.

In terminating the Foundation's capacity to function in the East the Soviet authorities were faced with probable non-recognition abroad of such confiscatory expropriation as having any extraterritorial effect or as entitling them to the Foundation's assets lying beyond the borders of the Soviet Zone. Most of its remaining assets were located in the West, where industrial and sales properties worth more than 30 million marks continued to operate. The existence and operation of these commercial assets in the West could not serve to prolong the Foundation's existence in the East, however, for the reason that, as far as Soviet authorities in the East were concerned, the Zeiss firm assets in the West had been expropriated and no longer belonged to the Foundation but represented state-owned property (i.e., property to which the Soviet Zone authorities were entitled until formation of the German Democratic Republic in 1949, whereupon such "peoples-owned" enterprises continued under its aegis and control).

In a letter to the German Economic Commission dated May 25, 1948, Dr. Schrade urged that as a means of retaining control over the Foundation's assets in the West and preventing the establishment in the West of a new Foundation which would compete with the state-owned Zeiss and Schott enterprises, the Commission adopt a resolution to the effect that in recognition

of the

> "continued existence and operation of the Carl Zeiss Foundation of Jena, the German Economic Commission hereby resolves that the two nationally owned enterprises of Carl Zeiss and Jenaer Glaswerk Schott & Gen, affiliated with and subordinated to the Industrial Association for Optical and Mechanical Precision Instruments, shall, besides their obligations as nationally owned enterprises, be found in addition, in the framework of their operations, to perform the tasks incumbent upon them as of old under the Articles of the Carl Zeiss Foundation continuing in effect."

This desperate effort to preserve at least some vestige of the old order, which contemplated Foundation-owned and controlled commercial enterprises, was rejected, for reasons which may readily be inferred. Any control of the VEBs by a private entity such as the Foundation, which was considered to be a bourgeois capitalistic institution, would smack of free enterprise and violate the basic principles of the new socialist order being introduced by the Soviet occupiers. Instead the Commission, on June 16, 1948, adopted a resolution amounting to a suitable burial requiem. Giving lip service to the necessity for recognizing Dr. Abbe's work and for continuing the existence and operation of the Foundation, the resolution sought to assure that it would be unable to function in the East by directing that the rights and duties of the "peoples owned" Zeiss and Schott enterprises in relation to the Foundation should be

established in "a new version to be drawn up of the Statute of the Foundation ... which shall be prepared, taking into consideration the economic and social changes which have meanwhile occurred," and that until such "new version" was prepared and approved by the Commission, "the powers of all the governing bodies of the Foundation will be exercised by a Foundation Commissioner to be appointed by the German Economic Commission". The Commission's resolution proved to be but another way of saying "May the Foundation rest in peace", at least in the East. No such "new version" of the Statute was ever prepared or approved. Although a Professor Rompe was appointed "Foundation Commissioner", he never functioned. When Dr. Barth, the Deputy since 1945, died in 1949, no replacement was appointed. Similarly, when Dr. Schomerus retired in March 1949, no member of the Zeiss Board of Management was appointed to succeed him. Foundation meetings were discontinued.

Creation of a New Domicile for the Foundation in the West in Recognition of its Continued Existence with its Administrative Center There

The expropriation of the Foundation's commercial assets in the East, and the termination of its capacity to function there as the owner and operator of such assets, posed for the Boards of Management in Heidenheim the important question of what was to be done with its substantial assets in the West,

which consisted of Zeiss branches in at least seven West German cities, Zeiss works near Heidenheim (which had been formed under the name "Zeiss Opton GmbH"), the control of numerous other manufacturing enterprises, patents, trademarks and bank accounts, a glass manufacturing establishment that formed part of the Schott firm's assets, and various Schott branches. Some of these properties had existed before the Board's move to Heidenheim in June 1945. Others were developed or created by the Board thereafter. For instance, upon the Board's evacuation to Heidenheim it opened an office there entitled "Carl Zeiss, Heidenheim Office." When the American military authorities made available a factory in the nearby town of Oberkochen, the Board established approximately 200 emigre Zeiss employees and scientists there and commenced production of Zeiss equipment. In order to avoid the taking of reprisals by Soviet military authorities in Jena, after the Heidenheim Board was advised that its establishment and operation of a Zeiss works in the West might increase the risk of a Soviet break-up of the Jena works (which later occurred anyway), the Heidenheim Board conducted its operations in the name of "Opton GmbH", a corporation organized for the purpose, the name of which was changed in January 1947 to "Zeiss Opton GmbH". Initially able to manufacture only a limited line of Zeiss products (the blueprints and equipment shipped from Jena

at the end of June never arrived), the Oberkochen plant produced its first scientific instruments in 1948 and shortly thereafter commenced shipment of products to the United States market, using not only the pre-1945 trademarks but "Zeiss Opton".

Thus, at the moment in June, 1948 when the Foundation was being destroyed by the Soviets in the East, it was on the threshold of flourishing as an extensive commercial enterprise elsewhere. Some idea of the size and importance of its properties in the West in comparison to what remained after expropriation in the East can be gathered from the fact that even if it is assumed that the Foundation's non-industrial properties in Jena were not confiscated (which gives defendants the benefit of a serious doubt raised by the all-embrasive terms of the decrees), the value of the Foundation assets in the West was more than 30 million marks in contrast to a value of approximately 3 million marks for the non-industrial assets in Jena. Moreover, the Boards of Management of the Zeiss and Schott firms were in the West, and with the Foundation's death in the East its principal office and administrative center, as a de facto matter, was now located in the West. Although the Zeiss Board accordingly was willing to desist from exercise of its functions as such, holding out its Jena appointees as Board members for the purpose of keeping the Foundation alive as a viable entity in the East, the

termination of the Foundation's existence in the East, of which the Board in Heidenheim learned in June, 1948, rendered continuation of the make-shift arrangement pointless. Now that the Foundation's capacity to function was destroyed in the East, there was no reason for the Board to refrain from carrying out its functions and duties as such elsewhere.

Faced with this unique dilemma, the result of extraordinary events without parallel in its history, the Board in Heidenheim not only desired but was prepared to continue the Foundation and its far-flung commercial operations in existence in the West, adhering to both the spirit and letter of Dr. Abbe's Statute to the extent that it was not prevented from doing so by Soviet action in the East. The immediate problem was the adoption of measures that would enable the Board to legalize the de facto existence of the Foundation in the West, in recognition of its surviving there extraterritorially after it was rendered incapable of functioning in the East. Without such legalization the Board might find itself unable to gain day-to-day recognition in the West of its right to control the Foundation's Western assets and operations, and of its authority to represent the Zeiss firm, proof of which in the form of registration in Commercial Registers throughout the West was required to assure recognition of the Board's right to act as such. If the

Foundation was no longer able to function in the East, did it survive as a legal entity or juristic personality in the West? If so, on what theory? Was it a creature of the Duchy of Saxe-Weimar (which lost its existence after it was merged into the Province or Land of Thuringia in 1923), or of Thuringia (existing in 1948 as a Land or Province occupied and controlled by the Soviet Military Authority), or of the sovereign state of Germany, now divided by the Allies into four zones, each occupied by military forces of one of the Allies which controlled and administered German affairs in its zone pursuant to agreements between the four Allied Powers and administered by their Allied Control Council for Germany?* Assuming that the Foundation was a creature of one of these governmental bodies, did it enjoy "extraterritorial immortality," despite its having been incapacitated in Jena, which had been its legal domicile since its original establishment, and despite provisions in its Statute that its legal domicile should be Jena (Section 3), which could not be amended (Section 121)? These were but a few of the

* The occupying powers were presumably subject to the Hague Convention and the provisions of Article 43 of the Hague Treaty Regulations thereunder (to which the United States and the U.S.S.R. are parties), which limit the power of an occupant to restoration of public order, "respecting, unless absolutely prevented, the laws in force of the country".

problems faced by the Board in June 1948 in seeking legal acceptance of the Foundation's existence in the West.

After consulting with legal counsel the Boards in Heidenheim decided to seek a decree from the land, or state, of Wuerttemberg creating a new domicile for the Foundation in Heidenheim and a "Vorstand" or Administration for it that would perform the functions of the Special Board which could no longer function in Jena. On July 30, 1948, a written request was accordingly made to the Ministry of Education of Wuerttemberg. Although it was signed by members of the Boards as "authorized agents" acting pursuant to the powers of attorney from Jena, each was also described as a member of the Boards. It must be remembered that at this fluid time, dominated by uncertainty, although the Soviet expropriation was in the process of destroying the Foundation's capacity to function in the Soviet Zone by conducting commercial business for profit as provided in its charter, there remained the faint hope, apparently still flickering in the minds of some, that Germany would eventually be reunited, whereupon the Foundation's Jena works would be returned to resume operations as required by its charter. Soon this hope was to be dashed. But in the meantime, an additional domicile, or legal center, would enable the Boards to continue its functions in the West.

Upon review of the Boards' legal predicament, it soon became apparent that it was unnecessary to seek creation of a new supreme organ, or "Vorstand" for the Foundation, in view of the existence of Section 114 of the Foundation's Statute and certain provisions of the German Civil Code which governed foundations. Section 114 of the Statute provided that if the Special Board should cease to exist (as occurred upon termination of the Foundation's existence in the East), its functions could be taken over by the Zeiss Board of Management, which was authorized in such event to assume control of the Foundation's assets for safekeeping and administration until a new Special Board was constituted. The German Civil Code, which had come into effect in 1900 after enactment by the legislature for the sovereign of Germany, was made applicable to existing Foundations (such as the Zeiss Foundation) by Article 163 of its Introductory Law. The Zeiss Foundation had been created pursuant to the laws of the Grand Duchy of Saxe-Weimar, itself the product of a melange of principalities, only to be dissolved in 1920 upon its merger with other duchies and principalities by the German National Parliament into the newly established land, or state, of Thuringia, which in turn ceased to exist in 1952 when Soviet authorities reorganized the governmental structure to form the German Democratic Republic (East Germany).

The evidence offered by the parties, particularly as construed by Professor Ernst Steindorff, German law expert, is persuasive that the effect of the adoption of provisions in the German Civil Code governing foundations was to constitute such foundations (including the Zeiss Foundation) nationals or creatures of the German federal government, as distinguished from the "laender", or existing states, forming the federation; and that thereafter the laws of each individual state (such as the Grand Duchy of Sachsen-Weimar and later the Land of Thuringia) dealing with foundations (e.g., Sections 14 to 17 of the Grand Duchy's "Ordinance of Execution of the German Civil Code" and the "1923 Thuringian Ordinance of Execution of the German Civil Code") were the product of exercise of power delegated to them by the Federation in implementation of the German Civil Code. The intent to constitute foundations German national entities, administered by the individual laender or states as arms of the German federal government, was evidenced by Article 55 of the Introductory Law to the Civil Code, which repealed the laws of the laender with respect to private matters (and we are dealing here with a <u>private</u> Foundation) except as otherwise provided in the Civil Code and Introductory Law, and by the fact that when the German Legislature desired to preserve the character of certain entities as nationals of a specific state only, as in the

case of the "Gotha" mining companies, it did so expressly. In short, after 1900 a Land, in adopting laws relating to foundations, was exercising power delegated to it by the Federal Government through Articles 80-88 of the German Civil Code to act with respect to a federal entity.

Article 80 of the German Civil Code provided that a foundation might be established by approval of the state, or Land, where it was domiciled and, in the absence of other provisions, its domicile should be where the administration was in fact conducted. Article 87 provided:

> "If the fulfilment of the purpose of a foundation has become impossible, or if it endangers the common weal, then the appropriate authority can impart to the Foundation another purpose, or else dissolve it.
>
> "In the case of a change of purpose, the intention of the founder is to be considered, as far as possible, and particular care is to be taken that the profits of the property of the foundation should belong to the body to which place they should come following as far as possible the intention of the founder. The authority can amend the statutes of the foundation as far as the modification of purposes requires."

At the time of the Soviet expropriation of the Foundation's assets in the East, there existed in the West the State of Wuerttemberg, created by the American Occupation Authority on September 19, 1945, which consisted of the former states, or lands, of Baden and Wuerttemberg. The Proclamation creating

it pursuant to assumption of supreme authority over Germany by the four Allied Powers and the establishment by SHAEF of a United States Area of Control, provided that except as abrogated, suspended or modified by the Military Government or the Control Council for Germany "the German law in force at the time of the occupation shall be applicable in each area of the United States zone of occupation." On March 1, 1947 a further proclamation by the American Military Government, after reciting that democratic constitutions had been adopted by Wuerttemberg, declared that full legislative, executive and judicial power existed in that state in accordance with its constitution.

To summarize, the quest for a new domicile proceeded on the bases (1) that the Zeiss Foundation was a German federal entity; (2) that Germany, despite its occupation by the four Allied Powers, remained a single unitary sovereign state being administered by the occupants pursuant to Article 43 of the Hague Regulations; (3) that Article 87 of the German Civil Code authorized the creation of an additional domicile, or a change in domicile, for the Foundation, because the Soviet expropriation made it impossible for it to fulfill its purposes in the East by preventing it from conducting its essential commercial operations; and (4) that Wuerttemberg, as a member state of the German federal government, had the power to effectuate such

implementation of Article 87. On February 23, 1949 Wuerttemberg's Minister of State issued a decree amending Section 3 of the Foundation's Statute to create a new domicile in Heidenheim and providing that the affairs of the Foundation should be administered by Messrs. Bauersfeld, Kueppenbender and Henrichs as the Zeiss Board pursuant to Section 114 of the Statute. The decree recited that it was promulgated pursuant to Article 87 of the German Civil Code and Article 133 of the Wuerttemberg law implementing the Code. A certificate was thereupon issued to the Zeiss Board as proof of its authority, which the Board thereafter used as evidence of its legitimacy, appropriate entries being made in the Commercial Register of Heidenheim and elsewhere.

Creation of a Sham "Foundation" in the Soviet Zone in Response to Threatened Trademark Litigation by the West

The Wuerttemberg decree of February 23, 1949 gave legal recognition to the Zeiss Board's identity as the official Board and to its de facto control and administration of the Foundation's assets in the West. It provoked no immediate reaction in the East and would probably have gone unchallenged indefinitely if it had not been for a dispute that arose out of the Jena VEB's use of Zeiss trademarks in its export of products from Jena for sale in the West. Prior to the Soviet

expropriation these marks had been registered in the name of the Zeiss "firm", being attached exclusively to its business, and constituted part of the Foundation's assets. At a meeting in October 1949 in Munich attended by the Zeiss and Schott Board members (Bauersfeld, Kueppenbender, Hirsch, Schott and Henrichs), a representative of the Jena VEB (Sandmann), and Dr. David, legal counsel, the Zeiss Board informed Sandmann that it was not willing, in view of the Soviet expropriation, to surrender the good will represented by the Zeiss marks, but that it would agree to license the VEB to use the marks, to which Sandmann responded that such an agreement would require the approval of the highest governmental authorities in East Berlin. The consummation of such a license was further complicated by the widening and decisive split between the East and West, reflected in the formation on September 21, 1949 of the German Federal Republic (West Germany), which was recognized by the United States, and the Soviet-sponsored establishment on October 7, 1949 of the German Democratic Republic (East Germany), which has never been so recognized.

The October 1949 meeting in Munich was followed by a letter dated February 17, 1950 from the members of the Zeiss and Schott Boards in Heidenheim to VVB Optik, the East's association of state-owned VEB enterprises, asserting the Foundation's

ownership of the Zeiss and Schott trademarks, claiming the right to prohibit infringement of them by VVB Optik, and proposing a license agreement. Such an agreement would recognize the fact that the establishments in the West were not yet able to meet the demand there and elsewhere for many items in the Zeiss line which were being manufactured in Jena. Except for inconclusive negotiations, no action was taken by the East until the latter part of 1950, when the Zeiss Board in Heidenheim applied to the newly reorganized German Patent Office in Munich for registration of Zeiss trademarks in the name of the Zeiss firm in Heidenheim, which was followed by the threatened seizure in Hamburg of a shipment of goods from Zeiss VEB in Jena.

Faced with the prospect that VEB-made products bearing the Zeiss marks might be barred from shipment to the West and other areas of the world, the East groped for a way in which to create a legal basis for claiming ownership of the marks that would be recognized despite the Soviet's purported confiscation of them through expropriation, which would not be recognized outside of East Germany. Legal officials of the Ministry of Machine Construction in East Berlin, as well as the legal advisers of the VEBs, took the view that a colorable basis could be achieved only by reviving the Foundation in Jena, and returning to it its confiscated assets so that it could thereafter be

conducted in accordance with Dr. Abbe's Statute. This proposal was unacceptable to the authorities of East Germany, however, for the reason that it would amount to the establishment of a capitalistic enterprise contrary to the concept of communized, peoples-ownership that was the foundation of the new socialist order in the East. Accordingly the decision was taken to attempt to "revive" or "warm up" the defunct Foundation in form, but without essential substance. Since the Ministry of Education of Thuringia refused to take action in the matter without direction from higher authorities in East Berlin (probably because it might risk official reprimand for even attempting to restore the form of a capitalistic organization), the VEB's legal adviser, Dr. Schacht, visited the then head of the legal department of the Minister of Machine Construction in East Berlin, Hans H. Richter, who went to Jena and was prevailed upon to lend help in the "warming up" venture.

Through Richter's efforts East Germany's Minister of Machine Construction, Ziller, directed the President of Thuringia to appoint a new "Foundation" Deputy and new "organs" of the so-called "Carl Zeiss Stiftung," or Zeiss Foundation, pointing out the urgency occasioned by threatened litigation by the West. Following a May 1951 meeting in Jena, the minutes of which noted that the Minister of Machine Construction had decided to make

the organs of the Zeiss Foundation "again" capable of functioning, and that the Ministry of Public Education for Thuringia was "again" made the Special Board, a representative of the Ministry of Education for the Province of Thuringia wrote a letter dated June 27, 1951 to Messrs. Schrade, Sandmann, Dunger, Heintz and Klemm advising them they were appointed "as organs of the Carl Zeiss Foundation for the management of the industrial activity by virtue of paragraph 4 of the Foundation Statute, such appointment to take effect June 27, 1945" (emphasis added). The attempted six-year retroactivity recognized the fatal weaknesses of the Jena managements' pretensions and those of the "Foundation" being "warmed up" in the East. Richter, an experienced German lawyer who was then head of the legal department of the East German Ministry, and Schacht, another trained German lawyer acting as the Jena VEB's counsel in the matter, both testified that as far as East Germany was concerned the Foundation had ceased to exist in the East after expropriation of its two commercial enterprises there.

In July 1951 the practice of holding Foundation meetings, which had been discontinued when its assets were expropriated in June, 1948, was resumed. Aside from such paper lip-service, however, no efforts were made to restore to the Foundation the Zeiss and Schott commercial assets seized in 1948,

which continued independently as "peoples-owned" VEBs; and minutes of Foundation meetings held in 1951 and 1952 make it clear that none of the Foundation's activities were to be carried out by independent Boards utilizing profits derived from operation of commercial assets owned by it, as prescribed in the Statute. On the contrary the Foundation was to be dependent on the State of East Germany for funds, which would be appropriated by government officials after review of budget requests.

Though East Germany was in later years to maintain the facade by specifying that the funds allotted to the Foundation should be furnished by Zeiss and Schott VEBs and another VEB named Jenapharm, which was engaged in drug manufacture in Jena, the VEBs were not legally obligated to make such payments.

After review and appraisal of the testimony and the voluminous contemporaneous documentary proof, the Court concludes that the so-called "Foundation" which the East German government sought to "revive" or "warm up" in 1951 is not the Foundation established by Dr. Abbe and is not identifiable with, or a successor to, that Foundation. It represents a pseudo-type organization, deliberately established by East Germany as a sham or facade for litigation purposes, with a view to trying to create a color of right to assets outside of East Germany, including Zeiss trademarks. It amounts to nothing more than an

instrumentality of the East German state, controlled and directed by it, which created it to act as a conduit for the administration of state funds used to finance non-industrial activities. The record reveals beyond any serious doubt that following the Soviet expropriation and break-up of the Foundation in 1948, the East German authorities had no intention of ever permitting its resurrection as a viable entity conforming to the original Statute, but that they considered it dead. This is vividly confirmed by the fact that the June 27, 1951 appointment of so-called "organs" for the Zeiss and Schott Works were expressly retroactive to June 27, 1945. If, as defendants here contend, Messrs. Schrade, Sandmann and Schomerus had been validly appointed members of the Zeiss Board on that date, and had continued to function as such after the expropriation, such retroactivity would have been both unnecessary and meaningless. But even if we disregard the non-existence of the Foundation in the East after June, 1948, the East German government's attempt to "revive" it in a different likeness, which failed to meet the essential requirements of the original Statute, amounted to nothing more than the erection of an ineffective facade. Furthermore, even after starting this game of sham, the East German authorities played it only half-heartedly during the next two years, failing to make any appointments to replace Dr. Barting,

when he died later in 1951, and Mr. Sandmann, when he fled to the West in March, 1953.

Plaintiffs' Institution of Litigation in February, 1954 to Protect its Rights to the Zeiss Marks

Part of East Germany's apathy toward its newly created "pseudo" Foundation developed when members of the Zeiss Board in Heidenheim, in December, 1951, renewed by letter their proposal to license the Zeiss VEB, subject to right of revocation at any time and without prejudice to assertion of its trademark rights, which was tacitly accepted by East Germany's Minister of Machinery Construction, who on February 25, 1952, instructed Dr. Schrade that the East German government deemed it expedient to adhere to the proposal as a "modus vivendi" and to proceed accordingly. Thereafter, until February 1954 the Zeiss Board in the West permitted the VEB to use the Zeiss name and trademarks on VEB-produced goods sold outside the Communist bloc countries. After the East and West failed to reach an agreement as to the licensing terms, however, the Zeiss firm in Heidenheim, on February 12, 1954, advised the East that it intended to take legal steps to protect its rights in the Zeiss name and marks, and, on February 18, 1954, advised all foreign distributors to cease handling Zeiss products made in the East. On February 27, 1954 the Zeiss firm in Heidenheim obtained an injunction in the District Court in Goettingen restraining a

West German distributor from selling VEB-made products bearing the Zeiss marks in West Germany. Legally speaking, the fat was in the fire.

The institution of litigation in the West, which was the occasion for the establishment of the sham "Foundation" in the East as a litigating weapon, spurred the latter to take further steps to build up its facade. First the Jena "Foundation" signed an agreement purporting to grant a license of the Zeiss marks to Zeiss VEB, retroactive to 1948, thus again using the device of retroactivity in an attempt to create a legal basis for the VEB's claims. Next the Council of the District of Gera, the subdivision of East Germany where Jena was located, instituted suit in the District Court of Stuttgart (West Germany) against the Zeiss firm in Heidenheim and its Board members seeking to strike its registration from the Commercial Register, to compel registration of the Zeiss marks in the name of the Jena "Foundation," and injunctive relief. Vigorously contested litigation ensued, culminating in a decision on July 31, 1954 dismissing the action on the ground that the District of Gera was not the legal representative of the Zeiss Foundation and therefore had no authority to bring the action, which was ultimately affirmed by the Federal Supreme Court in 1960 after an intermediate mandate for findings. Simultaneously a suit was

brought in May, 1954 by the Zeiss firm in Heidenheim in the District Court of Dusseldorf against Zeiss VEB (defendant in the instant case) and DIA seeking an injunction against the latters' use of the Zeiss trade names and marks, which resulted in judgment for the plaintiffs, ultimately affirmed by the Fed al Supreme Court on July 24, 1957 in a decision holding that the Board members in Heidenheim had never resigned and were authorized to represent the Foundation as the proprietor of the Zeiss firm.

Since the plaintiffs' commencement of litigation in West Germany in February, 1954, the history has essentially been one of litigation between the parties with respect to the Zeiss trademarks in various countries throughout the world. In April, 1954, at the instance of the Zeiss VEB of Jena, the Supreme Court of East Germany rendered an advisory opinion to the effect that the Foundation continued to exist in Jena, that the members of the Zeiss and Schott Boards had resigned in 1945, and that the 1949 Wuerttemberg decree establishing a new domicile was a nullity. This was followed by a default judgment in the District Court of Leipeig, East Germany, in favor of the District of Gera and the Zeiss VEB against the Zeiss firm in Heidenheim, which was affirmed by East Germany's Supreme Court, with modifications, in March 1961. There was no participation in any of the East

German proceedings by the plaintiffs or any representative of the Foundation or Board in the West. Elsewhere both sides have vigorously controverted each other's claims throughout the world, with varying results, the courts of some countries upholding plaintiffs' claims, those of others recognizing defendants' claims, and still others becoming bogged down in procedural preliminaries.

Proceedings in the United States with Respect to the Zeiss Marks

Resolution of the issues between the parties with respect to the United States trademarks has been delayed by the fact that until 1960 the Attorney General claimed to be their owner by virtue of purported vesting of the trademarks in his capacity as custodian of alien property. After he refused in 1954 to permit importation of Zeiss-marked goods from Jena, defendants Steelmaster and Ercona in April, 1956 instituted a suit in the United States District Court for the District of Columbia against the Attorney General, Secretary of the Treasury and the Commissioner of Customs seeking to enjoin the Government's prohibition against importation of Jena-manufactured merchandise bearing Zeiss marks on the ground that the trademarks had not been validly vested by the Attorney General because there was no business in the United States to which they were appurtenant. In March, 1960 the Court of Appeals for the District

of Columbia affirmed the District Court's decision holding that the marks had not been validly vested. Shortly thereafter, on December 30, 1960, the United States Government sold to plaintiff in Heidenheim the stock of Carl Zeiss, Inc., the company that had been the sales agent for Zeiss-marked goods in the United States, whose stock had been validly vested in 1942. In authorizing the sale the Attorney General stated it to be our Government's view, after consultation with our Department of State, that only the plaintiff was entitled to recognition as the legitimate Zeiss Foundation entitled to sell Zeiss-marked products in the United States. The present litigation followed, slightly more than a year later, in February, 1962.

The Adherence of the Plaintiff Foundation to the Abbe Statute

Since the establishment of a new domicile for the Zeiss Foundation in West Germany in 1949, its management has dedicated itself conscientiously to operating in accordance with the spirit, terms and purposes of the Abbe Statute. The Ministry of Education of Wuerttemberg has functioned as its Special Board pursuant to a transfer of such functions to it in accordance with Section 114 of the Statute. The Foundation's Zeiss and affiliated enterprises have operated profitably, with its profits being used in accordance with Section 1 of its Statute, with a steady increase in its growth, its cultivation

of branches of the precision technical industry and its promotion of general interest in optical, natural and mathematical sciences. It employs more than 22,000 people and ranks as one of West Germany's largest industrial enterprises. In accordance with Dr. Abbe's desire to provide social and economic benefits for its workers as expressed in the Statute, surpluses have been used to foster, promote and maintain community organizations and education, cultural and health institutions for the benefit of its working population.

DISCUSSION

A central and primary issue in this case is whether the plaintiff Foundation or that established in East Germany in 1951 is legally identical with, and the successor to, the original Abbe Foundation, which is without question entitled to exclusive use of the United States trademarks in dispute. The Soviet expropriation purported to encompass all Zeiss trademarks owned by the Zeiss firm, wherever located. In view of the well-settled United States policy against extraterritorial recognition of such decrees, the Foundation or its legal successor, if it has legally continued to exist (whether in East Germany, West Germany, or elsewhere*), must be recognized as the owner of the

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* Defendants' contention that one of the United States trademarks involved, "Carl Zeiss Jena", is so closely identified

[Footnote contd. on next page]

United States marks. Furthermore, while a United States court may give effect to expropriation of property located within the territory of the expropriating state, Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398 (1964), United States trademarks, for the purpose of determining the applicability of our anti-expropriation policy, are deemed to be located within the United States, even though the trademarked goods may be manufactured elsewhere, Ruckh v. Kraus Bros. & Co., 237 F.2d 255 (2d Cir. 1956); F. Palicio y Compania, S.A. v. Brush, 256 F. Supp. 481 (S.D.N.Y. 1966); and see Baglin v. Cusenier Co., 221 U.S. 580, 596 (1911), and our anti-expropriation policy applies with full vigor with respect to property outside the taking state. As Judge Friendly said in a learned opinion in Republic of Iraq v. First Natl. City Bank, 353 F.2d 47, 51 (2d Cir. 1965):

> "Extra-territorial enforcement of the Iraqi ordinance as to property within the United States at the date of its promulgation turns

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[Footnote contd.]

> with the city of Jena as to characterize articles bearing it as produced there, and hence inseparable from Jena, requires little comment. The proof reveals no such geographical connotation. It is doubtful whether most American buyers know the location of Jena, and defendants concede that such buyers would not associate the name with a Foundation. Since the Foundation for years prior to 1945 had manufacturing facilities outside of Jena, the quality of its products did not depend on manufacture in a particular location. In any event, a geographical connotation would not affect the issue of ownership.

on whether the decree is consistent with our policy and laws. [Footnote omitted] We perceive no basis for thinking it to be. Confiscation of the assets of a corporation has been said to be 'contrary to our public policy and shocking to our sense of justice.' Vladikavkazsky Ry. Co. v. New York Trust Co., 263 N.Y. 369, 378, 189 N.E. 456, 460, 91 A.L.R. 1426 (1934)."

Since the objective of our policy is to prevent the unfair consequences of expropriation without compensation, we are required as a counterpart of that policy, insofar as it is possible to do so, to identify the owners surviving the confiscation, and to award the property to them. In this case, therefore, since the Soviet's purported expropriation of the United States Zeiss trademarks violated our anti-expropriation policy, leaving the Foundation's ownership unaffected, our task is to identify the surviving owner as between the various claimants.

If the issue of legal identity or successorship, which is central to the case, could be resolved solely as a question of fact, the facts found by the Court would dictate a decision in favor of the plaintiff as the true Zeiss Foundation. The evidence reveals that as between the rival Foundations, the plaintiff is in fact a good faith continuation of the original Abbe organization, in which the Zeiss officers employed for life who were the official representatives of the original Foundation

have conscientiously done everything within their power to adhere to the Abbe Statute and carry on the tradition of the organization, to the extent that this has been permitted by circumstances beyond their control (i.e., their forced evacuation from Jena to Heidenheim, and their inability, after two years of efforts, to maintain the organization at Jena, even at the price of forebearing exercise of their own authority, after Soviet seizure of its assets there). The "Foundation" established in 1951 in East Germany, in contrast, is but a sham and subterfuge, erected solely for the purpose of litigation outside of East Germany, and neither a continuation of the original organization nor a good faith effort to resurrect it in substance or adhere to its basic tenets.

If fundamental fairness and equity were the criteria, therefore, the de facto existence and operation of the plaintiff Foundation in the West as a good faith effort to continue what remained of the overall Abbe Foundation enterprise, after expropriation of its assets in the East and its inability to function in its original domicile, would call for its recognition. Such an approach based on the equities was adopted by the United States Supreme Court more than 50 years ago in a remarkably parallel situation in Baglin v. Cusenier Co., 221 U.S. 580 (1911), which involved the trademarks to the well known

liqueur "Chartreuse." For many years the liqueur had been manufactured by the order of Carthusian Monks in a monastery in France known as the "Grande Chartreuse" and sold throughout the world (including the United States) under the trademark "Chartreuse." In 1903 the monastic order was dissolved by French law and its property confiscated. Thereupon the Monks moved to Spain where they resumed manufacture of the same liqueur there. In the meantime a French company, as liquidator, continued operation of the expropriated monastery and factory in France. The Supreme Court granted the refugee Monks an injunction against use of the trademark in the United States by the liquidator and his distributor, holding that the Monks were legally identical with the original monastic order and that to permit the defendants to use the marks in the United States would allow the French Government to seize United States trademarks and detach them from the Monks' product. In denying effect to an extraterritorial expropriation by a foreign power that would violate American policy, the court was prepared to overlook technical niceties in favor of doing substantial justice on the basis of the equities.

The fashioning of such a doctrine of equitable ownership as a counterpart of our anti-expropriation policy is frequently dictated by necessity, since expropriation usually

changes the expropriated enterprise, sometimes so drastically that recognition of the survivors or their successors becomes difficult. Where the ownership of a natural person is involved (such as the expropriation of King Faisal's United States assets by the Republic of Iraq), the inquiry is a relatively simple one, the property being awarded to his estate or heirs upon his death. Republic of Iraq v. First Natl. City Bank, 383 F.2d 47 (2d Cir. 1965). Where a creature of the law, such as a partnership or corporation, is concerned, however, the inquiry into its life, death and succession is more complex. As Judge Cardozo said in Petrogradsky M. K. Bank v. National City Bank, 253 N.Y. 23, 30 (1930):

> "There is a distinction not to be ignored between the life of a human being and the life of a persona ficta, the creature of the State. When a human being dies, his death is equally a fact whether it is brought about legally or illegally, whether he has died of illness in his bed or has been murdered on the highway. The event is not conditioned by the juristic quality of the cause. But in respect of juristic beings, the quality of the cause may determine the event as well. The personality created by the law may continue unimpaired until law rather than might shall declare it at an end. Conceivably, the law will declare it at an end when marauders have brought frustration to the purpose for which personality was given. That is another question. What is not to be lost sight of is that even so it is the law and not merely an assassin that must pronounce the words of doom."

The legal existence, status, identity, and domicile of a foreign corporate entity or juristic personality, such as the Foundation here, must be determined by the laws of the country where it has been created and continues to exist, see Bank of Augusta v. Earle, 13 Pet. 519 (U.S. Sup. Ct. 1839); Russian Reinsurance Company v. Stoddard, 240 N.Y. 149 (1925). Procedural technicalities, lack of clarity in the foreign law involved, or doubt as to its applicability, however, should rarely be viewed as insurmountable obstacles, particularly where United States property is at stake, since failure to resolve the issue would reward the oppressor, give effect to fundamentally unfair acts, or result in the property becoming "ownerless". Expropriation without compensation is an extraordinary and basically unfair measure, frequently resulting in unusual consequences not provided for in the laws of the country where the owner was established, which often assume continuation of governmental institutions according to an existing pattern rather than substitution of drastic new concepts. As a result our courts have developed a willingness to disregard technicalities in favor of equitable considerations. For instance in Zwack v. Kraus Bros. & Co., 237 F.2d 255 (2d Cir. 1956), the Court, faced with similar problems arising out of the expropriation of a Hungarian ownership, stated:

"Under applicable Hungarian law, which regards a partnership as an entity, the individual partners have no individual rights in the firm assets.... The defendant seeks to analogize the Hungarian entity concept of the partnership to the American concept of the corporation and argues that the partner's interest in the firm assets consists wholly of a claim of ownership in the firm having its exclusive situs at the firm residence in Hungary. It urges that the transfer of plaintiffs' shares of ownership was accomplished in Hungary by official acts of the Hungarian government and therefore is not subject to collateral attack outside of Hungary even if confiscatory and therefore against the public policy of the forum.

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"We think that, where firm assets existing in the forum are concerned, technical considerations as to the manner in which the foreign state seeks to expropriate them are not controlling. Prior to confiscation the assets of the firm both here and in Hungary were equitably owned by the plaintiffs as the sole partners in the firm. It is clear that the Hungarian government could not directly seize the assets which have a situs in the stage of the forum. To allow it to do so indirectly through confiscation of firm ownership would be to give its decree extraterritorial effect and thereby emasculate the public policy of the forum against confiscation. This we decline to do." 237 F.2d at 258-59.

Similarly, in a case involving an Estonian corporation, A/S Merilaid & Co. v. Chase Natl. Bank, 71 N.Y.S.2d 377 (Sup. Ct. N.Y. County 1947), a majority of whose stockholders met in Sweden following expropriation and purported to transfer the corporate seat to Sweden and re-elect former directors with authority to continue the business, such action, notwithstanding

irregularities, was regarded as effective to continue the corporate existence and entitle the surviving entity to funds deposited in a New York bank. The irregularities in procedure were disregarded because "all that could be done to conform with the usual formalities was done". 71 N.Y.S.2d at 379. Where a juristic entity or personality created by one state has been recognized by other states, which permit it to "do business" in their respective territories (owning property, making contracts, etc.) so that it assumes a status as an international business organization, no sound reason appears, in fairness or logic, why termination of its existence in the creating state, and purported seizure of its assets without compensation, should require those other states where its property is located to treat its existence as terminated everywhere rather than assume sponsorship or recognition of the entity as continuing to exist within their borders. Permission to "do business" would appear as a matter of international law, to carry the implied condition that the entity be treated as continuing for certain purposes within the state granting such permission.

With these principles in mind we turn to consideration of the law of the country in which the Zeiss

Foundation was created. See page 88, supra, Bank of Augusta v. Earle, 13 Pet. 519 (U.S. Sup. Ct. 1839); Russian Reinsurance Company v. Stoddard, 240 N.Y. 149 N.Y. 149 (1925). Both sides describe that law as "German law," which accords with the view that at least until September 1949, when the Federal Republic of Germany (West Germany) was formed, Germany continued to exist legally as a sovereign state occupied by four hostile powers which, through the Allied Control Council, administered it. Clark v. Allen, 331 U.S. 503, 514 (1947); State of Netherlands v. Federal Reserve Bank, 201 F.2d 455 (2d Cir. 1953). The parties differ sharply, however, as to whether the German law is that promulgated and interpreted by West Germany, or by East Germany. Plaintiffs argue that the former must be recognized as the only law of Germany for the reason that the United States Government, through its Executive Branch, recognizes the Government of the Federal Republic of Germany (West Germany) as the only German Government freely and legitimately constituted and entitled to speak for Germany (Policy Statement of U.S., France and U.K., September 19, 1950, 23 Dept. of

State Bull. 530 (1950)), and does not recognize the existence of the German Democratic Republic (East Germany) or any other separate state or sovereign in the Soviet Zone. See Moscow Fire Insurance Co. v. Bank of New York, 280 N.Y. 286 (1939); Petrogradsky M.K. Bank v. National City Bank, 253 N.Y. 23 (1930).

In the plaintiffs' view the governing body of German law encompasses the law of the German Reich (including its Constitution and the German Civil Code in effect from the termination of hostilities until the formation of West Germany in 1949); the acts of the Control Council for Germany, of the Occupying Powers in the West, and of the governments of the various German laender or states in the West; the Constitution of West Germany and decisions of its courts; and the laws in effect in the Soviet Zone to the extent that they do not violate the public policy of West Germany.

Defendants, on the other hand, contend that our Government's non-recognition of East Germany does not preclude application of East German law, at least where it is the de facto government of that territory, Salimoff & Co. v. Standard Oil Co., 262 N.Y. 220, 226-27 (1933); Vladikavkazsky Ry. Co. v. N.Y. Trust Co., 263 N.Y. 369 (1934); Bank of China v. Wells Fargo Bank & Union Trust Co., 104 F. Supp. 59 (N.D. Calif. 1952); Restatement 2nd, Foreign Relations Law, §113. They argue that since Jena, where the Foundation was originally organized, is located in East Germany and since West Germany does not claim to have sovereignty or territorial jurisdiction over the Soviet Zone, Mann, "Germany's Present Legal Status Revisited," 16 Int'l & Comp. L.Q. 760, 779, 789 (1967), and the United States does not recognize West Germany as the de jure government of all Germany, Zschernig v. Miller, 389 U.S. 429 (1968); "Contemporary Practice of the United States Relating to International Law," 57 Am. J. Int'l L. 403, 410 (1963), German law as promulgated in East Germany and interpreted by its courts should be applied.

While our Government's diplomatic recognition policy is entitled to considerable weight in determining what law is to be applied, The Maret, 145 F.2d 431 (3d Cir. 1944); Latvian State Cargo & Pass. S.S. Line v. United States, 116 F. Supp. 717

(Ct. Claims 1953); see Bank of China v. Wells Fargo Bank & Union Trust Co., 104 F. Supp. 59, 64 (N.D. Calif. 1952), the invocation of the policy is complicated in the present case by the fact that the Court is dealing with a divided country, West Germany being recognized as sovereign only over its own territory and not over that of East Germany, which remains unrecognized by the United States. Choice of law rules normally assume the existence of a territory having an appropriate relationship to the issue, over which the recognized foreign government claims sovereignty. See, e.g., Amstelbank, N.V. v. Guaranty Trust Co., 31 N.Y.S.2d 194 (Sup. Ct. N.Y. Co. 1941).

Whether or not German law as declared or construed by the courts of unrecognized East Germany or recognized West Germany should be applied depends to some extent on the nature of the question to be resolved. Normally the acts of an unrecognized regime which pertain to its purely local, private, and domestic affairs will be given effect, see Matter of Lubeny, 19 App. Div. 2d 370, 372 (1st Dept. 1963); Restatement, 2nd, Foreign Relations Law, §113; and such acts on the part of East Germany are even applied in West Germany, regardless of diplomatic non-recognition, to the extent that they are not inconsistent with West German policy. Here, however, we are not confronted with acts on the part of East Germany dealing

solely with private, local, domestic matters, such as certificates of birth or death, powers of attorney, land transfers, or the like. We are dealing with decisions of East German courts with respect to matters extending beyond the borders of East Germany, such as the nature of a foundation under federal law and the effect to be given to acts of Wuerttemberg. The questions of whether a private foundation is a federal or state entity, and, if a federal entity, whether its domicile may be altered or transferred by a member state (Wuerttemberg) other than that where its domicile existed for many years (Thuringia), present issues of public policy relating directly to persons and property located in countries other than East Germany. However, to resolve these questions solely according to German law as promulgated and declared by authorities and courts of West Germany ignores the fact that even though the Foundation had no significant contacts with the authorities of Thuringia or successor political divisions in East Germany after it was destroyed in the East through Soviet expropriation, it did come into existence through action of the authorities of the Duchy of Saxe-Weimar, later merged into the State of Thuringia, which in turn became, successively, part of the territory controlled by the Soviet Military Administration and the unrecognized German Democratic Republic (East Germany). In view of the Foundation's

territorial contacts with the East before its capacity to function there was destroyed, this Court should not be precluded from considering decisions handed down by the courts of East Germany with respect to the Foundation's legal identity, powers, and status, and giving them such weight as they appear to merit. Fortunately we are aided here by the continuation in effect of the provisions of the German Civil Code throughout both Germanies and by the more fluid and amorphous concept of nationality or domicile of corporations and foundations in Germany, compared with the concept in this country. Testimony of German law experts revealed that while German entities, including private corporations and foundations, depend for their existence upon the approval of their charter or "Statute" by a state, the "nationality" of the entity (which is but another way of referring to the state whose laws govern its existence and legal relationships as an entity) is influenced more by the place where it maintains its principal place of business and its administrative center than by its place of formation. See Note, "Corporations in Exile," 43 Colum. L. Rev. 364, 366 (1943). The "nationality" of a German foundation depends, therefore, at least as much on the body of law by which it is in fact governed as it does on the law of the place where it came into being. Since a foundation's principal establishment is usually located

in the state where it is created, its domicile or nationality rarely comes into issue. Here, however, the Zeiss Foundation's principal establishment, its management and its business assets were all involuntarily located in one German state (Wuerttemberg) as the result of the termination of its capacity to exist in the other (Thuringia). The answer to the question of whether, in view of such an unusual change in circumstances, it is to be considered a national of Germany or of Thuringia requires a brief review of the development of relevant law in Germany.

Prior to 1871 the territory which was to become the German Empire, or federal union, was divided between numerous kingdoms, duchies, principalities and free towns, most powerful of which were Prussia, Bavaria, Saxony, Baden and Wuerttemberg. Following popular movements toward nationalism in 1848 and power struggles between rival states, Prussia took the leadership and principally through the deft negotiations of Otto von Bismarck, the various states signed treaties leading to the formation of the empire as a permanent federal state, which in 1871 adopted a constitution substantially in a form passed by Prussia's diet in 1867. One of the constituent states of the empire was the Grand Duchy of Saxe-Weimar-Eisenach, a limited hereditary monarchy governing several scattered districts (e.g., Neustadt, Weimar, Eisenach) and a score of scattered enclaves,

many not even contiguous with any other lands of the Duchy. The Duchy itself had resulted from the union of smaller principalities. Although the member states retained this autonomy as to matters not delegated to the imperial authorities, the latter ruled supreme over all states in the delegated area. The new Constitution established "a common citizenship for all Germany" and provided that "the whole domain of civil ... and commercial laws" was to be "under the supervision and control of the Empire", Wright, The Constitutions of the States at War, 1914-18, p. 217 (1919). Effective January 1, 1900 the German Empire adopted a federal Civil Code, applicable throughout the German federation, containing provisions relating to foundations which were expressly made applicable to existing foundations created under the laws of member states before the Civil Code was adopted. Thereafter, on January 14, 1905 the Zeiss Foundation Statute was amended by Dr. Abbe, the amendment being approved by the authorities of the Grand Duchy of Saxe-Weimar-Eisenach pursuant to the new German Civil Code.

To the extent that they occupied particular areas, the provisions of the German Civil Code represented the supreme law of the German Empire. The effect of the adoption of Code provisions governing foundations, therefore, was to constitute foundations, including those established under laws of the

various German states, or laender, creatures of German federal law, or federal entities, as distinguished from entities of the states where each particular foundation was originally established. Article 55, Introductory Law. Exceptions were made in the case of specific types of foundations, such as the "Gotha" mining companies, which were expressly designated as local state entities because of their strictly local characteristics. See Wang, The German Civil Code, pp. 550-68; Arts. 164-166, The Introductory Law. Subject to such exceptions, however, Germany, having established a common citizenship for all subjects of its different member states, took a further step forward in this federalization process by constituting foundations federal, rather than state, entities. One goal was to assure that even though member states might continue to administer foundations, federal standards and federal authority would assure foundations of minimum guaranties and, if necessary, federal intervention for the purpose of enabling a foundation to continue in existence rather than be relegated to a state of limbo or dependency on the sketchy and inadequate laws of many of the member states. The need for such federally-created provisions for intervention was greater in the case of private foundations than private corporation for the reason that while the private foundation is a legal entity, capable of owning property and carrying on

business under a trade name, or "firma," it is not owned by anyone, nor is it an instrument of any governmental agency; and the necessity for establishment of foundations as federal, rather than state, entities was indicated by the changing character of the German states, giving rise to serious questions as to the existence, identity and adequacy of applicable state laws. For instance, in the present case, at the turn of the century the Grand Duchy represented but one of several mergers of different German duchies, kingdoms and principalities, each with its divergent laws, and within 20 years, it in turn would be merged into another state, Thuringia. As a federal law applicable in all such states, the German Civil Code provided some measure of stability and uniformity for private foundations.

Although the Zeiss Foundation became a German federal entity upon adoption of the German Civil Code in 1900, under the German Constitution (unlike that of the United States) administration of the federal law was delegated to the individual member states, each of which was authorized to execute the federal law with full force and effect throughout Germany, subject to resolution by German federal courts of any differences, or conflicts between the states in their administration of the federal law. In implementation of the federal Civil Code's provisions governing foundations, each member state, including

Thuringia, adopted laws governing foundations domiciled in such state. Since a private foundation is in the nature of a trust, the state's participation was essentially ministerial and supervisory in nature, designed to insure that the will of the founder, as expressed in the Statute or charter, would be respected as far as possible. For instance, a foundation came into existence as a juristic person upon the state's acceptance of the Statute, a purely ministerial act.

The domicile of such a foundation would usually be in the state where its Statute was accepted or approved, for the reason that its principal place of business would normally be located there. With the adoption of the German Civil Code, of course, the concept of domicile as attaching to a particular state had less significance than theretofore, since the foundation, being a German federal entity, could do business in any other member state merely by registering its "firma" or its establishments in the other state, a ministerial matter. In other words, although it had a domicile in a particular state, it remained a creature of federal law. Essentially, therefore, the principal significance of the concept of domicile for foundations under German federal law was that it determined the state authority normally expected to supervise the foundation in accordance with federal law, at least to the extent that such

supervision was required, without, however, excluding supervision also by another member state, where the foundation was actually engaged in doing business.

Although no authoritative German precedents or teachings prescribe the procedure to be followed to transfer a foundation's domicile from one German state to another, German law experts agree that the normal procedure would be for the foundation's management to obtain approval of the state where it is presently domiciled, and that a prohibition against transfer of domicile (such as that found in Section 121 of the Zeiss Foundation's Statute) would ordinarily bar such a transfer. In the present case, however, the Soviet Military Administration, which controlled the domiciliary state, by expropriating the Zeiss Foundation's assets and preventing it from continuing to function in Thuringia, destroyed its capacity to function there and made it impossible for it to carry out its founder's purposes in that state. Since it owned and operated substantial commercial enterprises elsewhere, however, dissolution was not called for under its Statute (Section 116). In the opinion of highly respected experts in German law, these unusual circumstances would call for exercise by another member state of the power granted by §87 of the German Civil Code, which provides that where a foundation's purposes can no longer be fulfilled, its statutory purpose may be

amended by "the appropriate authority" to enable it to function in accordance with the founder's intention as far as possible. Although this broad authority, in the nature of a codification of a cy pres doctrine for foundations, would ordinarily be administered by the state where the foundation is domiciled, and would involve an amendment of some provision of the Statute other than that relating to domicile, nothing in §87 precludes amendment of a Statute's provision as to domicile where its stated purpose of maintaining its domicile in a particular state can no longer be fulfilled, and nothing in it requires that such an amendment be made by one member state of the German federation rather than another. This Court, therefore, accepts the view of German law experts that under the circumstances presented here (Soviet expropriation which made it impossible to fulfill Dr. Abbe's stated purpose of maintaining the Zeiss Foundation's commercial enterprises and domicile in Jena, and left its operational center and principal remaining commercial works in Wuerttemberg), the State of Wuerttemberg, as a member of the German federation, was empowered by §87 as "the appropriate authority" to establish the Foundation's domicile where its administrative center and principal operations were now located.

Having in mind Dr. Abbe's intent to establish an organization that had as its primary purpose the profitable

operation of its commercial enterprises in a free enterprise system as the source of funds to cultivate and maintain its operations in the precision technical industry, and that confiscation of its commercial facilities and assets in the East made it impossible to fulfill this primary purpose of the Statute, the establishment of the Foundation's domicile in Heidenheim, where its Boards of Management were located, constituted the only available course that would enable the Foundation to continue "as far as possible" in accordance with "the intention of the founder". (§87, German Civil Code) The authorities of Soviet-occupied Thuringia which, by expropriation, made "fulfillment of the purpose of the Foundation ... impossible," were hardly "the appropriate authority" to amend the Foundation's Statute. It defies common sense to say that a foundation's domicile must continue in a state which seizes its basic assets and denies it the right to carry out its purposes. As an arm of the German federation, the State of Wuerttemberg was, under these extraordinary circumstances, "the appropriate authority," and since §87 provides that "The authority can amend the Statute of the Foundation as far as the modification of purpose requires," such broad delegation of power included the power to amend the Statute's provision as to domicile (notwithstanding the Statute's provision that it could not be amended), so that the basic

purpose of the founder might be continued in another part of Germany rather than be destroyed altogether. Dr. Abbe, as founder, in providing in the Statute that the Foundation's domicile should be Jena, and that this provision as to domicile could not be amended, assumed that the Foundation would be permitted to carry on its commercial enterprises (which were the source of all of its other activities) in Jena, which was the birthplace of the Zeiss and Schott works. He did not anticipate that governmental action might not only confiscate but prevent the continuation of these enterprises and operations by the Foundation in Jena, leaving others capable of continuing the Foundation's work in another part of Germany. The entire Statute, however, makes it clear that if he had contemplated such a possibility, he would have preferred that the Foundation continue elsewhere in Germany, provided its basic purposes might be achieved there, rather than dissolved. This is evidenced by the Statute's provision (Section 116) that the Foundation was to be dissolved only if it became impossible to continue any of its business undertakings with the result that it could "see no longer any grounds for continuing its activity in the sphere of the higher technical industry profitably and be also in possession of no other organizations of a permanent nature and of sufficient importance ...."

After loss of its assets and ability to function in Jena, the Zeiss Foundation still owned substantial "business undertakings" and "organizations of a permanent nature" in the West, which constituted "grounds for continuing its activity in the sphere of the higher technical industry profitably" there. If the founder's intention was to be respected, the proper course of action was to continue its activities in the West. This it was enabled to do by changing its domicile from Jena to Heidenheim. Section 87 of the German Civil Code permitted intervention by the state authority of Wuerttemberg for the purpose of achieving such a change, so that the validity of the state's action in exercising the supervisory power over foundations delegated to it by §87 does not depend on the Board's authority.

Defendants' contention that a foundation is strictly a creature of the state which approved the founder's statute or charter, and the supporting testimony of German law experts offered by the defendants, Messrs. Nathan and Konig, must be rejected. Their view to the effect that a member state creating a foundation has always had the powers set forth in Articles 80-88 of the German Civil Code, including the power to dissolve such a foundation or change its purpose, would render these Civil Code provisions superfluous, whereas the interpretation furnished by plaintiffs' German law experts and authorities not

only accords with the Code's pattern but gives them meaning and effect, especially in view of the generally accepted doctrine of federalism to the effect that following adoption of the German Civil Code each of the member states, or laender, had only limited autonomy which could be changed from time to time by the central government as the sovereign power. Emerson, State and Sovereignty in Modern Germany, pp. 238-241 (Yale Univ. Press 1928). The view accepted by the Court, which would give effect to the German Civil Code, is that its provisions superseded the private law systems of the states to the extent that the field was occupied by the federal government. In accepting this view the Court has carefully considered not only the authorities and arguments offered by the parties but the credibility to be extended to the experts who testified on the issue. The Court found the testimony of Professor Steindorff, offered by plaintiffs, to be particularly impressive and reliable as a thorough, fair, and carefully reasoned analysis. In contrast, that of Professor Nathan appeared for the most part to be unacceptable, not only because of its weaker support in logic but because of a strong pre-existing bias evidenced in intemperate articles written by him with respect to Zeiss in which he stated that the United States was "in league with German Fascists" in April and May, 1945, when its forces entered Jena, that the history is one of

a "pseudo-Zeiss scandal" in which "for monopoly capitalism no means are notorious enough illegally to enrich itself", that "all the dark powers of the German and American imperialism will appear behind the scene and pull their strings, in order to achieve judicial approval as a cope-stone of their dirty machinations", etc. Mr. Honig, a British barrister offered as another witness by defendants, suffered from the disability of never having practiced law in Germany, taught German law, or written any works or articles on the subject of German law. His testimony was unconvincing on the principal issue. After testifying that §87 of the German Civil Code authorized a change of domicile of a foundation at least within a land or state, he withdrew this view on the following day. Furthermore, the authorities offered by Nathan and Honig are unpersuasive and clearly distinguishable. An 1843 decision by the Court of Appeal of Celle to the effect that only the state where a foundation legally has its domicile may exercise supervisory power over it, is irrelevant for the reason that it antedated the 1871 unification of Germany and the 1900 adoption of the German Civil Code, with its provisions federalizing foundations, which govern here. As both Professor Nathan and Mr. Honig conceded, the "nationality" of a foundation is essentially a term used to describe the body of law by which it is governed. Since 1900,

as Professor Steindorff demonstrated, that body has been the German Civil Code.

The weakness of the position advocated by defendants with respect to §87 lies partly in their failure to distinguish between a "private" foundation, such as the Zeiss Foundation,* which is governed by §§80-88 of the German Civil Code, and a public one, such as a state insurance or charitable institution, which is essentially a state enterprise. In the case of the former, the founder's intention as expressed in the proposed statute governs, the state's function in accepting the statute being essentially ministerial in character, as is its function in authorizing the establishment of German private corporations, such as AGs and GmbHs. Transfer of the domicile of such private corporations from one state to another has always been treated as a ministerial matter, the transferee state routinely accepting the registration of the business enterprise at its new seat, provided its "Firma," or trade name, will not cause confusion. As a result the courts of West Germany, where a private corporation's assets in the Soviet Zone have been expropriated, have decided that no action on the part of the old domiciliary state

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* In 1943 the German supreme court for labor relations so decided in applying private law to internal relations of the Zeiss Foundation in a case involving an employee's claim against it. (Tr. pp. 1305-1306)

is needed to change the domicile to a state where the AG or GmbH now has its principal office, assets and operations. Under §87 similar principles govern the changing of the domicile of an expropriated private foundation.

The opinions of the courts of East Germany prove to be of little assistance in resolving the issues before us, including the question of whether the Zeiss Foundation's domicile could be validly transferred pursuant to §87 of the German Civil Code by the State of Wuerttemberg-Baden from Jena to Heidenheim. In the first place, no member of the Boards or other authorized official of the Foundation ever received any advance notice of the advisory opinion rendered on April 6, 1954 by the Supreme Court of East Germany, and no Board member or authorized representative was heard with respect to it or participated in the proceeding instituted by the Council of the District of Jena and the Zeiss VEB before the District Court of Leipsig which resulted in the entry of a default judgment in September, 1959, affirmed with modifications by the Supreme Court of East Germany in March 1961. These were, therefore, in the nature of ex parte, default-type proceedings, unlike those which took place in West Germany, where the VEBs or their representatives actively participated as adversaries. As would be readily surmised, the result of such a one-sided type of proceeding was that the East German

courts did not have before them much of the essential proof relied upon by this Court with respect to such crucial issues as whether the Boards of Management resigned and whether the effect of expropriation was to prevent the Foundation from functioning in the East as required by the Statute. With respect to these key matters, for instance, plaintiffs have adduced here the testimony of Messrs. David, Kueppenbender, Nelson, Schott, Richter, Seidel and Schacht, none of whom gave testimony, as far as can be determined, in the East German default-type proceeding. Based on such an inadequate, one-sided record, the East German court's findings are different on these essential issues from the findings made here. Deciding on such a different record that the Boards did not resign and that the expropriation did not destroy the functioning of the Foundation in the East, the conclusion that the Foundation in Jena, coupled with the VEBs, is legally identical with the Abbe Foundation comes as no surprise, but must be rejected when all the facts are taken into account.

Quite aside from the fact that the decisions of the courts of East Germany were based on different factual premises, however, it must be recognized in weighing these decisions that East German courts do not speak as an independent judiciary of the type found in the United States or even in West Germany, but

orient their judgment according to the wishes of the leaders of the socialist state, which are expressed through two coordinated administrative organs, the Ministry of Justice and the Office of the Attorney General. See "The Administration of Justice and the Concept of Legality in East Germany," 68 Yale L.J. 705, 707 (1959). In short, even the East German Supreme Court is made responsible to the highest authorities of the state as a means of insuring "that the content of socialist law and its implementation through the courts are in harmony with the overall state administrative activity during the period of the comprehensive construction of socialism".* Law and Legislation in the German Democratic Republic (Comments on 1963 Decree as to Fundamental Tasks and Methods of Work of the Judiciary Organs (East Germany)). Nevertheless, to the extent that they may shed light on the legal issues before this Court, they have been considered.

Such consideration reveals the decisions of the Supreme Court of East Germany to be so completely lacking in any objectivity of approach and so thoroughly saturated with a combination of communist propaganda, diatribes against the "capitalist oriented" decisions of the West German courts, and absence of judicial restraint, that any logical analysis is

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* Toward this purpose East German judges after being selected by the Ministry of Justice are "instructed" by it and are removable for inefficiency or unreliability arising out of policy differences. The "judge remains a simple party servant", 68 Yale L.J. 707-12, 749 (1959).

obfuscated by their obvious political mission. For example, after haranguing on the importance and necessity of smashing the Foundation because its assets were used to further "the Fascist predatory war" and amounted to a "war crime", and after conceding that its Jena works had been expropriated, the Court disregards noncompliance thereafter with the essential basis of the Abbe Statute (the Foundation's ownership and operation of its commercial enterprises), simply stating that it "suffered no losses of property apart from having ceased on 17 April 1948 or 1 June 1948 to be the manager of the Jena Stiftung works of old. This, of course, is the equivalent of politely saying it ceased to function at all in Jena. West German court decisions are described in the following terms: inspired and controlled by "monopolistic-capitalistic circles"; "nothing to do with juridical reasoning but amounts to an irresponsible juggling with fictitious notions"; "formalistic bourgeois methods [which] make it impossible to veil such coarse violations of law"; "pretense of strict lawfulness"; "conscious falsification"; and "contradictions between peacefully minded population and a warlike revenge-inspired State, which find their expression chiefly in the clerico-militaristic federation at Bonn". A faint idea of this lack of a reasoned, objective approach may be gathered from the following except from the Supreme Court's opinion of March 23, 1961:

"The fact that the principle of Socialist society and power politic has of necessity opened up the way of continuously progressing development, of Socialist uplife and Democracy, thus inherently following the tenets of Democratic centralism by broadening more and more, and by no means narrowing, the sphere of duties and responsibilities of the local organs of the power politic, shows clearly enough that exactly these local organs are in most intimate contact with the workers in the cities and the countryside and are thus marked out for incorporating ever more strata of the population into political and economic leadership. That, of course, is an idea a court sworn to the Capitalist system cannot in all probability be expected to grasp. What remains to hold is that the authorities exactly of a State grounded on the fundaments of real Socialist Democracy are far better prepared to successfully carry forward the progressive ideas of the Statute of the Stiftung than is the original monarchical Special Board of the Stiftung, which follows semi-feudal ideas. The Federal Court nevertheless ought to have or could have alighted in any case on the cognition - convincingly proven in the opinion of the bourgeois lawyer Dr. Ernst Wolff of 23rd June 1987 - that to explain the Statute of the Stiftung not on the basis of the Statute itself but on that of ideas imputed to the Founder - ideas concerning an economic development he did not and in fact could not anticipate - has nothing to do with juridical reasoning but amounts to an irresponsible juggling with fictitious notions.

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"With a view to camouflaging such practice, certain West German theorists and experts of Capitalism and, in their wake, the West German courts have - of course by referring to their unfailing constitution - invented a so-called 'Intersocial Right' which, though non-existing in any German law code, is displayed whenever capitalistic and in particular monopolistic

> interests feel the urge of disturbing the economic development of the German Democratic Republic by appropriation under pretence of strict lawfulness of all somehow attainable assets belonging citizens of that Republic." (Carl Zeiss Stiftung, Jena, et al. v. Firma Carl Zeiss, Oberkochen, Supreme Court of the German Democratic Republic, March 23, 1961 (D's Ex. 228 pp. 1447-48, 1454))

In contrast to those of East Germany, the decisions of the courts of West Germany appear to be restrained, objective, reasonably logical, and dispassionate in their approach. They were rendered only after all parties, including authorized representatives from East Germany (the Council of Gera purporting to act as Special Board of the Foundation in one action and for the VEB Carl Zeiss Jena in another) appeared and were given full opportunity, which they exercised, to offer proof and be heard. Nevertheless, even assuming the availability of collateral estoppel in this action with respect to issues thus thoroughly litigated between the same parties in West Germany, we do not believe that the decisions of the courts of West Germany are entitled to as much effect as is argued for them by plaintiffs here.

The decision of the Federal Supreme Court of West Germany rendered on July 24, 1957 granting injunctive relief in favor of the Carl Zeiss firm of Heidenheim against the VEB Carl Zeiss Jena and the DIA was based on the conclusion that

expropriation of the Foundation's assets had shifted the "economic center of gravity of the enterprise" to the West, with the result that the firm's principal place of business became Heidenheim, and the Zeiss Board in Heidenheim (Prof. Bauersfeld, Dr. Knoppenbender and Mr. Henrichs) was still the official Board, with authority under Section 114 of the Statute to act on behalf of the Foundation with respect to the Zeiss trademark and tradenames in West Germany, regardless whether its legal domicile had been validly transferred from Jena to Heidenheim. Since we have already independently found on the basis of the evidence before us that the Board did not resign and that the effect of expropriation was to leave Heidenheim as the Foundation's administrative center or principal place of business (whether or not it be characterized as a shifting of an "economic center of gravity"), it is unnecessary to accord collateral estoppel effect to the findings of the courts of West Germany as to these issues, although we would not be prevented from doing so merely because the West German courts would not give such effect to them. However, even holding (as we do) that after such thorough consideration and determination of the issues before the courts of West Germany the necessity for putting an end to litigation requires that the parties be estopped from relitigating them here, Lee Pain Inc. v. Polaroid

Publishing Co., 232 F. Supp. 623 (E.D. Pa. 1964) (per Kirkpatrick, J.); Bata v. Bata, 39 Del. Ch. 258, 163 A.2d 493 (Del. 1960), cert. denied, 366 U.S. 964 (1961); Restatement of Judgments §§68, 70, those decisions did not decide that the Zeiss Foundation's domicile had been validly transferred to Wuerttemberg pursuant to §87 of the German Civil Code, which is one of the alternative bases upon which this Court rests its decision. It was unnecessary for the West German courts to decide that issue for the reason that the official members of the Board (Messrs. Kueppenbender, Bauersfeld and Henrichs) were still alive and had authority to act with respect to the business of the Zeiss firm in West Germany, regardless whether the Foundation's domicile had been validly established in the West. Since the time when the decisions of the West German courts were handed down, however, all members of the Board as it then existed except one (Kueppenbender) have died, and have been replaced by members appointed by the appropriate Wuerttemberg authorities acting on the basis that since the Foundation's domicile had been established at Heidenheim they had authority to act under the applicable provisions of the Abbe Statute. Since Kueppenbender lacks authority alone under the Abbe Statute (Section 9) to prosecute the present suit, and in any event has purported to act with his newly appointed "colleagues"

rather than those who had been originally appointed in Jena and then forcibly transferred to the West (Mauersberg, Enderlein and Jooss), the decisions of the West German courts estop defendants from questioning the fact (independently found by this Court on the other evidence before it) that the Foundation enterprise known as the firm Carl Zeiss was a continuation of that which had existed in Jena.* The West German decisions do not, however, have the effect of precluding defendants from raising legal issues not considered by the West German courts, such as the existence of the Foundation as a federal entity and the authority of Wuerttemberg to act under §87 of the German Civil Code.

Plaintiffs further contend that they are entitled to judgment on the ground that the Wuerttemberg Decrees of 1949 and 1954 (the first creating an additional domicile for the Foundation in Heidenheim and the second transferring its domicile from Jena to Heidenheim) and the law passed by the West German Parliament on August 3, 1957 confirming the validity of those decrees, constituted acts of a state recognized by the United States, the validity of which may not be questioned by this Court under the "act of state" doctrine reaffirmed by the Supreme Court in Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398 (1964); see Underhill v. Hernandez, 168 U.S. 250, 252 (1897); Banco de

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* [Footnote - See page 117A.]

[Footnote for page 117]

In addition to being furnished with the decisions of the courts of West Germany and East Germany, this Court has received copies of the decisions of the High Court of West Pakistan (Sept. 29, 1967), High Court of Justice, Chancery Division (England), House of Lords, 2 AER 536 (1966), Court of Appeal of Paris (April 2, 1963), Cour de Cassation (Supreme Court) of France (March 15, 1966), and the Swiss Federal Supreme Court. However, the 1957 decision of the West German Supreme Court, being the first final judgment on the merits between the parties with respect to certain basic issues, would be entitled to res judicata effect with respect to such issues (in accordance with the policy of putting an end to litigation) unless the court of another country, which would normally recognize the res judicata effect of prior foreign judgments, refused to give such effect to it. Smit, International Res Judicata and Collateral Estoppel in the United States, 9 U.C.L.A.L. Rev. 44 (1961). None of the other aforementioned countries have so ruled. On the contrary, several of the decisions do not represent final judgments on the merits between the parties.

[redacted] v. Federal Reserve Bank, 114 F.2d 438 (2d Cir. 1940); [redacted] v. The Hercules Powder Society Assurance, 163 F.2d 246 (2d Cir.), cert. denied, 332 U.S. 772 (1947). The doctrine is founded on the principle that our courts should refrain from action that might hinder or embarrass our Government's Executive Branch in its conduct of our country's foreign relations. It dictates that our courts not sit in judgment as to the acts of a foreign state with respect to matters within its jurisdiction, i.e., "a thing located, or a status or other interest localized, in its territory". See Restatement of Foreign Relations Law §17. A foreign state for such purposes is an entity recognized by our Government, which has a defined territory and population under control of its government. Restatement of Foreign Relations Law §4.

Whether or not Wuerttemberg, at the time here involved, is considered a member state, or land, of some other entity (Germany, West Germany, or the American Zone of Occupation), it has possessed sufficient attributes of an independent sovereign to qualify as a "state" within the meaning of the "act of state" doctrine. Shanghai v. Nier, 83 F.2d 673 (9th Cir. 1936), aff'd. on other grounds, 299 U.S. 468 (1937); Stadt v. Bank Overseas Ch., Inc., 254 App. Div. 919 (2d Dept. 1938), rehearing denied, 255 App. Div. 737, aff'd. per curiam, 280 N.Y.

622, rehearing denied, 280 N.Y. 837 (1939). It has had the power to engage in foreign relations with the consent of the Government of West Germany and has done so. See Article 32, West German Constitution, Peaslee, Constitutions of Nations, Vol. 2, pp. 30, et seq. (2d ed. 1956); Leimer, "The Foreign Relations of the Member States of the Federal Republic of Germany," 16 U. Toronto L.J. 346, 356 n. 36 (1966). Thus Wuerttemberg is entitled to sovereign immunity. Sullivan v. State of Sao Paolo, 36 F. Supp. 503 (E.D.N.Y.), affd., 122 F.2d 355 (2d Cir. 1941). As for West Germany, whose Parliament passed the 1967 Law, there can be no serious question about its status as a foreign "state" within the doctrine.

It is likewise clear that the Wuerttemberg acts in question were concerned with a matter of "public interest" since they related to and affected rights of thousands of employees and property worth many millions in the West. As the decrees themselves noted "It is in the public interest that the enterprises of the Carl-Zeiss Foundation may be able to enforce their rights, also abroad, and to fulfill their tasks," in view of the importance of the Foundation to the German economy's development of precision-mechanics and optics.

Defendants' contentions that the Wuerttemberg acts cannot qualify as "acts of state" because they were passed

without notice to persons in Jena and an opportunity to be heard and hence are offensive to the public policy of the United States, and that the 1967 Law is unconstitutional, must also be rejected. The fundamental policy underlying the "act of state" doctrine precludes our attacking or undermining the act of a foreign sovereign on such grounds. Banco de Espana v. Federal Reserve Bank, 114 F.2d 438, 444 (2d Cir. 1940); Pasos v. Pan American Airways, 229 F.2d 271 (2d Cir. 1956).

Defendants further object to treatment of the Wuerttemberg decrees as "acts of state" on the ground that aside from §87 of the German Civil Code, Wuerttemberg lacked jurisdiction to enact a law affecting matters beyond its own territory, i.e., the status and domicile of a Foundation located in Jena. Since we have already decided that the Foundation was a federal German entity and that Wuerttemberg had jurisdiction as a member of that federation, pursuant to §87, to act with respect to its domicile under the circumstances presented here, it is unnecessary to resolve that issue. However, since the parties have spent much time and effort on it, we state our views briefly.

One of the fundamental conditions of the "act of state" doctrine is that the foreign state whose act is involved have a clearly recognizable jurisdictional basis for its action,

usually are based on territorial control over the subject of its action. Repeatedly our Supreme Court in reaffirming the doctrine has expressly referred to it as relating to the acts of a foreign sovereign "within its own territory". Underhill v. Hernandez, 168 U.S. 250, 252 (1897); Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398, 400 (1964); see Restatement (2nd) on Foreign Relations Law §43 (1965); Republic of Iraq v. First National City Bank, 353 F.2d 47 (2d Cir. 1965); S. Pelicia y Compania, S.A. v. Brush, 256 F. Supp. 481, 486 (S.D.N.Y. 1966), aff'd., 375 F.2d 1011 (2d Cir. 1967). The "act of state" doctrine may therefore be invoked here as an independent basis for recognition of the Wuerttemberg acts and the 1967 Law only to the extent that West Germany had territorial jurisdiction to act. However, the mere fact that the foreign state's act, in addition to regulating matters within its territorial jurisdiction, may have some indirect impact outside its territory, does not preclude our treatment of it as an "act of state."

Although our Government has extended diplomatic recognition to West Germany and refused recognition to East Germany, which it considers to be under the effective control of the Soviet Union, West Germany is not recognized by us as having any territorial jurisdiction, either de facto or de jure, over East Germany. It is true that on September 19, 1950,

following the organization of the West and East German governments, the United States, Great Britain and France issued a communique stating that "pending the unification of Germany" they considered West Germany "the only German government freely and legitimately constituted and therefore entitled to speak for Germany as the representative of the German people in international affairs" (23 Dept. of State Bulletin 530 (1950)). In later publications, however, our Government made it clear that the communique was not intended to constitute recognition of West Germany as the de jure government of East Germany. See interpretative minute issued by the three powers with respect to the September 19, 1950 communique, Bathurst and Simpson, Germany and the North Atlantic Community, A Legal Survey (1956), p. 188; Mann, "Germany's Present Legal Status Revisited," 16 Int'l & Comp. L.Q. 760, 789 (1967), instructions by our Department of State to its consuls with respect to East German nationals, "Contemporary Practice of the United States Relating to International Law," 57 Am. J. Int'l Law 410 (1963), and the Supreme Court's recent decision in Zschering v. Miller, 243 Ore. 567, 412 P.2d 781, revd., 389 U.S. 429 (1968), at p. 449.

The Wuerttemberg Acts of 1949 and 1954 and the 1967 Law acted substantially with respect to subjects within West Germany's territorial jurisdiction, i.e., extensive Foundation

assets, employees and activities located there. In taking such action they merely gave legal recognition to the de facto existence of the Foundation within their borders by granting it a domicile and providing it with legitimation entitling it to be registered for the purpose of continuing to conduct the business controlled by its Boards of Management in West Germany. To that extent the Wuerttemberg Acts and the 1967 Law appear to qualify for recognition as "acts of state". To the extent that the 1954 Decree, and the 1967 Law affirming it, purported to act with respect to a matter not within the territory of West Germany, i.e., the 1954 termination of any domicile for the Foundation in Jena, they cannot be recognised as acts of state. But since the Foundation had already ceased to exist in fact in Jena, and Wuerttemberg was in effect giving legal recognition to the de facto continued existence of what remained of it in the West, the Wuerttemberg Act to such extent was both superfluous and immaterial.

In an effort to meet the objection that the acts in question were in part extraterritorial, plaintiffs urged that the objection cannot apply for the reason that Germany continued to exist under international law as a single unitary sovereign state occupied by four hostile powers which had neither annexed nor destroyed it as a sovereign state but were bound under

Article 43 of the Hague Regulations to respect the exercise by Wuerttemberg of the powers granted to it under the German Constitution and Civil Code. Although Germany, at least prior to the formation of the Federal Republic on September 21, 1949, has been considered by the United States to be de jure a unified state occupied by foreign powers exercising its sovereign authority pursuant to the Hague Regulations, see State of the Netherlands v. Federal Reserve Bank, 201 F.2d 455 (2d Cir. 1953); Clark v. Allen, 331 U.S. 503 (1947); Documents on Germany 1944-1961, Committee on Foreign Relations, U.S. Senate, 87th Cong., 1st Sess. 1961; Mann, "Germany's Present Legal Status Revisited," 16 Int'l & Comp. L.Q. 760 (1967), the U.S.S.R. through its military administration was in fact in complete control of East Germany and vested by agreement between the four occupying powers with the exclusive power in its own zone of occupation to exercise the supreme authority in Germany. Tripartite Agreement of November 14, 1944 on Control Machinery in Germany, Article 1, Documents on Germany, 1944-1961, 87th Cong., 1st Sess. pp. 1-3; Declaration as to the Unconditional Surrender of Germany, June 5, 1945, The Axis in Defeat, State Dept. Publication 2423, pp. 62-70; Statement of the Governments of the United Kingdom, the United States of America, etc., on Control Machinery in Germany, June 5, 1945, Documents on Germany, 1944-1961, 87th

Cong., 1st Sess., pp. 19-20; Protocol of Proceedings of Berlin Conference, Foreign Relations of the United States, Conference of Berlin (Potsdam), 1945, vol. 2, II, A, 1. Furthermore, following the formation of the Federal Republic of Germany in September, 1949, the government of West Germany did not purport to exercise sovereign authority with respect to matters in East Germany, either de jure or de facto. Its purported jurisdiction and its constitution were limited to West Germany, its constitution stating that it would be put into force in other parts of Germany only upon their acquiescence. Basic Law of the Federal Republic of Germany, Art. 23, Peaslee, Constitutions of Nations, Vol. II, p. 34 (2d ed. 1956). As far as our Government has been concerned, sovereign power in East Germany has been exclusively exercised by the Soviet Union through its agency or instrumentality, the government of East Germany, which remains unrecognized by us as an independent state. See "Contemporary Practice of the United States Relating to International Law," 57 Amer. J. Int'l L. 403, 410 (1963), and Sacharing v. Miller, 389 U.S. 429 (1968).

Thus, although the Wuerttemberg decrees and the German Parliament's Act of 1967 are not entitled to recognition as acts of state to the extent that they purport to terminate the Foundation's domicile in East Germany since to that extent they

acted extraterritorially, they are entitled to such recognition insofar as they acted to give a legal status to the Foundation's de facto existence in West Germany as a continuation in the West of the original Zeiss cooperative enterprise, whose remaining commercial assets (worth 30 million marks) and personnel were almost entirely within the West's territorial jurisdiction. See comments to §27, Restatement of Foreign Relations Law. Although its United States trademarks are deemed to have their situs here and a line must be drawn somewhere between the direct and indirect territorial consequences of an act of state, the Wuerttemberg Decrees and 1967 Law did not purport to adjudicate ownership of these marks. They simply recognized that the Foundation was now located in West Germany. The act of state doctrine is not rendered inapplicable because the act involved has some impact outside of the territory of the acting state.

Regardless of their status as acts of state, the Wuerttemberg Decrees and 1967 Law represent the acts of a friendly foreign power, diplomatically recognized by the United States, which are consistent with, and in furtherance of, our own Government's foreign policy interests, and on December 28, 1960, the Attorney General of the United States, in deciding to sell the stock of Carl Zeiss, Inc. (vested in World War II) to plaintiff rather than to Soviet-controlled VEBs or similar

agencies, reaffirmed this policy, stating:

> "Upon consultation with the Department of State, it has been determined that, in the administration of former Zeiss property in the United States vested under the Trading with the Enemy Act, the Carl Zeiss Foundation in the Federal Republic of Germany should be recognized as the legitimate Carl Zeiss Foundation and its operating firms as the producers of genuine 'Zeiss' products and that the firm now operating as 'Optik Carl Zeiss Jena V.E.B.', or related firms, using, in part, nationalized plants of the Foundation in the Soviet Zone of Germany, should not be so recognized. The foregoing determination is consistent with the foreign policy interests of the United States and supports this Government's policy of recognizing the Federal Republic as the only German Government which has been legitimately constituted."

In such circumstances, absent some fundamental policy objections (such as those inherent in penal or revenue laws), the acts in question are entitled to recognition under principles of comity, at least for purposes of determining ownership of property having its situs in the United States (i.e., the United States Zeiss name and marks). Anderson v. N.V. Transanding Handelsmaatschappij, 289 N.Y. 9 (1942); State of the Netherlands v. Federal Reserve Bank, 201 F.2d 455 (2d Cir. 1953). Faced with a remarkably similar situation in Anderson, the New York Court of Appeals stated:

> "There can be no doubt that the decree of May 24, 1940, promulgated by the recognized government of the State of the Netherlands is part of the law of a friendly sovereign State

> of which the defendants are subjects and in which the defendants are domiciled, ... By comity of nations, rights based upon the law of a foreign State to intangible property, which has a situs in this State, are recognized and enforced by the courts of this State, unless such enforcement would offend the public policy of this State. That rule is part of the law of this State, as it is, in general, the law of all countries which accept the reign of law." (289 N.Y. at p. 19)

Since we have decided that the Wuerttemberg Decrees are entitled to recognition as acts of state to the extent indicated, it is unnecessary to deal at any length with defendants' contention that the Law passed on August 3, 1967 by West Germany's Parliament, which affirmed Wuerttemberg's jurisdiction to adopt the decrees, should not be accepted as an act of state for the reason that it is invalid under the German Constitution. Undoubtedly for the very policy reasons which led to adoption of the "act of state" doctrine our courts have consistently refused to embark upon the treacherous and temerarious course of passing upon the constitutionality of a foreign government's acts, which could hardly serve to promote our foreign relations. Banco de Espana v. Federal Reserve Bank, 114 F.2d 438, 444 (2d Cir. 1940); Pasos v. Pan American Airways, 229 F.2d 271 (2d Cir. 1956); Shapleigh v. Mier, 83 F.2d 673 (5th Cir. 1936), affd. on other grounds, 299 U.S. 468 (1937); Eastern States Petroleum Co. v. Asiatic Petroleum Corp., 28 F. Supp. 279 (S.D.N.Y. 1939);

Fuhr v. Newfoundland-St. Lawrence Shipping Ltd., 24 F.R.D. 9, 12 (S.D.N.Y. 1959). In any event, defendants' contention that the 1967 Law amounts to a camouflaged "Einzelgesetz," i.e., a legislative act designed to decide a particular controversy, is based entirely on suspicion. While there are circumstances indicating that the law was inspired by the Zeiss case (e.g., Dr. David's furnishing of a legal memorandum to the West German Ministry of Justice and Parliament with respect to the legal status of the Foundation, provisions of its Statute and a draft that would encompass the Zeiss issue), the law on its face does not purport to decide the Zeiss issue or limit itself to any particular controversy. On the contrary, it purports to deal with the scope of jurisdiction of all West German states, or laender, to act with respect to foundations which formerly had their domiciles outside of West Germany. Furthermore, defendants fail to provide any instance where such a law has been invalidated in Germany or elsewhere.

Defendants' further contention that the 1967 Law must be disregarded as an act of state on the ground that it would violate American constitutional principles must also be rejected. There is no authority for the proposition that the act of state doctrine applies only to foreign acts that would pass muster under our Constitution; on the contrary, foreign laws inimical to

our constitutional principles have been recognized, e.g., Banco Nacional de Cuba v. Sabbatino, 376 U.S. 398 (1964). However, to the extent that principles of comity form a basis for giving effect to the 1967 Law, this Court would not be precluded from rejecting that Law if it violated our own concept of due process and fundamental fairness.

Defendants' argument is bottomed on the principle that a law passed to give retroactive validity to conduct is unjust for the reason that during the long intervening period before the retroactive law was enacted people were entitled, in entering into legal relations, to rely upon the legal order as it existed previously. Here, however, after Wuerttemberg's enactment of the 1949 and 1954 decrees, no sound basis existed for treating them as nullities or assuming that the Foundation's domicile was in East Germany rather than in Heidenheim. On the contrary, the issues of the identity, status, and domicile of the Foundation were being actively litigated in the German courts by the defendants. Since the existence of the Foundation's Boards of Management, assets, employees and operations in West Germany afforded Wuerttemberg an adequate jurisdictional basis for its action in establishing a domicile there, the 1967 Law did not constitute a curative act designed to remedy mistakes or erase illegalities. See, Swayne & Hoyt Ltd. v. United States,

300 U.S. 297 at 302 (1937). It works no injustice upon the defendants.

To the extent that principles of comity provide a basis for adherence to the Wuerttemberg decrees, defendants raise a more serious question in contending that the decrees violate United States due process concepts because they were enacted without any notice to Jena and opportunity to be heard, see Hilton v. Guyot, 159 U.S. 113, 202 (1895). Aside from the absence any proof that such notice is customary, the record indicates that even if such notice had been given, it would have been disregarded by the defendants, at least as to the 1949 decree, since the proof is convincing that as far as the defendants and the Soviet administration was concerned at that time, the Foundation was dead and, as a practical matter, there was no real hope of enforcing the Soviet expropriation decree in the West. By November, 1951, defendants were apprised of the 1949 decree in connection with proceedings pending in the German Patent Office in Munich. No action was taken to attack it, however, until October 1954, when the Council of the District of Gera instituted an action in the Administrative Court of Stuttgart against the government of Wuerttemberg attacking the validity of both the 1949 and 1954 decrees. The Jena interests were afforded full opportunity to be heard in that proceeding,

which culminated in dismissal of the action by the Administrative Court on September 29, 1961, which was affirmed by the Administrative Court of Appeals of Baden-Wuerttemberg, following which an appeal to the Supreme Federal Administrative Court was dismissed. Under all the circumstances, including the opportunity afforded to challenge extensively the legality of the Wuerttemberg decrees, we see no basis for disregarding the procedure by which they were enacted as offensive to our concepts of due process.

Our reasons for concluding that the plaintiff Foundation is identical with the original Zeiss Foundation and entitled to ownership of its United States trademarks apply with equal (if not greater) force in the case of Zeiss Ikon A.G. of Stuttgart. We conclude that plaintiff Zeiss Ikon A.G. is the same corporation as that which, prior to the Soviet expropriation of its assets in 1947, had its seat in Dresden (Soviet Zone), with manufacturing establishments in Stuttgart and West Berlin, and that it is the owner of the United States "Zeiss Ikon" marks. In June 1947 the Soviet controlled Ministry for Economics and Economic Planning of the Government of the Land of Saxony (where Dresden is located) expropriated all assets of Zeiss Ikon A.G. without compensation, effective July 1, 1946. As in the case of the later Soviet expropriation of the Zeiss Foundation's

assets, the effect of the expropriation of Zeiss Ikon was to destroy its capacity to function in the Soviet Zone leaving unaffected its assets located beyond the territorial borders of that Zone, including its manufacturing plants in Stuttgart and West Berlin and its "Zeiss Ikon" marks there and those used in the United States in connection with sale of merchandise manufactured in Germany.

The identification of plaintiff Zeiss Ikon A.G. as the same entity which owned the United States "Zeiss Ikon" trademarks is clear. The transfer of its domicile to West Germany presented few of the legal or conceptual problems encountered in the case of the Foundation. We have already noted the tendency of continental Civil Code countries to associate nationality or domicile more with the place of principal establishment than the state of origin, see Note, "Corporations in Exile," 43 Colum. L. Rev. 364 (1943), and that transfer of the domicile of an AG or a GmbH is treated in Germany essentially as a ministerial matter. Furthermore, in the case of Zeiss Ikon its by-laws expressly permitted its stockholders to hold meetings in Stuttgart, Berlin, Jena or Dresden. Two-thirds of its outstanding stock was owned by the Foundation, whose management was located in the West. Nothing in German law forbade its stockholders from holding a stockholders' meeting

in Stuttgart or West Berlin and voting to transfer its domicile from Dresden to Stuttgart. This is exactly what they did. On March 3, 1948 a special meeting of its stockholders held in Stuttgart passed a resolution transferring its domicile from Dresden to Stuttgart. On August 18, 1948, an entry recording the transfer was made in the Commercial Register of the County Court in Stuttgart. The validity of this procedure under German law was attested to not only by German law experts called by plaintiffs but by one of defendants' own experts who testified that the domicile of a German AG could be validly transferred by such procedure. Furthermore, in a well-reasoned decision handed down on February 15, 1958, in a suit between plaintiff Zeiss Ikon A.G. and the V.E.B. Zeiss Ikon Dresden, the Federal Supreme Court of West Germany upheld the validity of the transfer of domicile. Accordingly, we find that the plaintiff Zeiss Ikon A.G. is identical with the corporation of that name which engaged in the manufacture and sale of photographic equipment and similar merchandise using the trademark "Zeiss Ikon" and other similar trademarks which it owned.

Since we find plaintiff Foundation to be the "true" Zeiss Foundation and owner of the trade name and trademarks in dispute, it is unnecessary to dwell at length on plaintiffs' contentions that defendants' claim to ownership should be rejected as a violation of both the United States public policy

against recognition of East Germany and §5(b) of the Trading with the Enemy Act. Although our Government's policy of non-recognition has been taken into consideration in denying extraterritorial effect to confiscatory expropriation or nationalization decrees of an unrecognized foreign state, e.g., The Maret, 145 F.2d 431 (3d Cir. 1944); Latvian State Cargo & Pass. S.S. Line v. United States, 116 F. Supp. 717 (Ct. Cl. 1953), this Court has not considered itself bound by our non-recognition policy to disregard German law as construed by courts of East Germany but, on the contrary, has carefully considered decisions of the East German courts (see pages 110-114 supra). Likewise, in the exercise of its discretion, the Court would not be barred by our Government's non-recognition policy from awarding United States trademarks to citizens or residents of a non-recognized country found to be the owners of them any more than our Government deems itself barred from conducting trade relations with East Germany and other "Iron Curtain" countries. See Zschernig v. Miller, 389 U.S. 429 (1968); Bank of China v. Wells Fargo Bank & Union Trust Co., 104 F. Supp. 59 (N.D. Calif. 1952), modified, 209 F.2d 467 (9th Cir. 1953); Upright v. Mercury Business Machines Co., 13 App. Div. 2d 36, 213 N.Y.S.2d 417 (1st Dept. 1961).

Defendants are, however, barred from asserting any

claims to the United States trademarks in dispute by §5(b) of the Trading with the Enemy Act (50 U.S.C. App. §1, et seq.) and regulations thereunder (8 C.F.R. §507.46). Section 5(b) authorizes regulations prohibiting acquisition, use or transfer of rights in property subject to United States jurisdiction in which a foreign country has an interest; and 8 C.F.R. §507.46 prohibits transfer or exercise of any rights by German nationals with respect to trademarks "in" or "registered in" the United States on December 11, 1946 without authority of the Attorney General or Director of the Office of Alien Property. The Zeiss trademarks in dispute are various United States trademarks which the United States Government has purported to vest in the Alien Property Custodian (later the office of Alien Property).

Relying upon Rogers v. Ercona Camera Corporation, 277 F.2d 94 (D.C. Cir. 1960), which held that the Attorney General's vesting of the Zeiss trademarks was ineffective, defendants argue that 8 C.F.R. §507.46 is inapplicable because the marks were not effectively "registered" in the United States. Whether or not they were "registered," however, they have their situs "in" the United States, see F. Palicio y Compania, S.A. v. Brush, 256 F. Supp. 481, 491-92 (S.D.N.Y. 1966), aff'd., 375 F.2d 1011 (2d Cir. 1967), and the Act and regulation in question are not limited to vested marks registered in the Attorney General's name

but they are much broader in their application, extending to German nationals' transactions in any trademarks in the United States. Ercona was not concerned with what property is within the scope of §5(b) but with the Attorney General's "vesting" rights and his right to prohibit importation of Jena-made "Zeiss"-marked goods by virtue of such purported vesting. Since the trademarks in issue are "in" the United States, neither defendant VEB, nor Ercona as its assignee, would be entitled to exercise any rights in them in the absence of authorization from the Attorney General or Director of the Office of Alien Property pursuant to 8 C.F.R. §507.46.

We next turn to a series of arguments asserted by defendants in support of their defenses and counterclaims. The first of these is the contention that even if plaintiffs are entitled as owners to the Zeiss trade name and marks in the United States, defendants are entitled to "concurrent" use of the name and marks because of laches, acquiescence, or abandonment on plaintiffs' part, which is claimed to have caused defendants serious prejudice, and because of the American public's interest in having two competitive sources of Zeiss-marked goods. Defendants rely principally on the fact that although plaintiffs learned of the Soviet Military Administration's expropriation of the trademarks in June, 1948, the present

suit claiming infringement of the United States trademarks was not instituted until 1962, 14 years later; that during the period from 1949 to 1954 plaintiffs encouraged defendants to use the Zeiss marks on Jena-manufactured goods shipped out of the Soviet Zone at a time when West Germany was unable to meet the market's demand; that in the meantime defendants increased their investment in the United States market through sales promotion and advertising; that plaintiffs never sought to intervene in the Ercona suit commenced in 1956 (in which defendants sought to restrain the Attorney General's claim of ownership in the Zeiss mark) although many of the same facts and issues were involved in that action; and that during plaintiffs' delay, many key witnesses have died and other proof become unavailable.

Where a person entitled to exclusive use of a trademark is guilty of unreasonable delay in asserting his rights against an infringer or junior user, or acquiesces in the latter's use, or evinces an intent to abandon his rights in the marks, a court of equity has the discretionary power, after weighing the respective interests of the parties, to deny injunctive relief or an accounting. Saxlehner v. Eisner & Mendelsohn Co., 179 U.S. 19 (1900); La Republique Francaise v. Saratoga Vichy Spring Co., 191 U.S. 427 (1903). The denial of relief, however,

is not determined by rules of thumb. The existence of laches or acquiescence, and whether it is sufficient to warrant such denial, depends upon a consideration of the circumstances of each particular case and a balancing of the interests and equities of the parties. Among the factors to be weighed in determining whether laches will bar relief are the strength and value of the trademark right asserted, Ambrosia Chocolate Co. v. Ambrosia Cake Bakery, 165 F.2d 693 (4th Cir. 1947); the plaintiff's diligence, or lack of it, in seeking to enforce the mark, Anheuser-Busch v. Du Bois Brewing Co., 175 F.2d 370 (3d Cir. 1949), cert. denied, 342 U.S. 943 (1951); the harm that will result to the senior user if relief is denied, Standard Oil Co. of Colorado v. Standard Oil Co., 72 F.2d 324 (10th Cir. 1934); whether the junior user is an innocent infringer who acted in good faith ignorance of the senior's rights, Chandon Champagne Corp. v. San Marino Wine Corp., 335 F.2d 331 (2d Cir. 1964); the extent to which the senior and junior uses of the mark are competitive, Ancient Egyptian Arabic Order of Nobles of the Mystic Shrine v. Michaux, 279 U.S. 737 (1929); Polaroid Corp. v. Polarad Corp., 287 F.2d 492 (2d Cir. 1961), cert. denied, 368 U.S. 820 (1961); and the extent of harm or prejudice suffered by the junior user as a result of the senior's delay, Procter & Gamble Co. v. J. L. Prescott Co., 102 F.2d 773 (3d Cir.), cert.

denied, 308 U.S. 557 (1939). Where the owner of the trademark fails to take any action for many years to enforce a relatively weak trademark against a junior user who has proceeded innocently to use the same or similar mark on non-competing goods in which he has invested large sums, so that denial of relief would cause relatively little harm to the senior user in contrast to the serious prejudice that would result to the defendant, relief will be denied.

As distinguished from laches, acquiescence constitutes a ground for denial of relief only upon a finding of conduct on the plaintiff's part that amounted to an assurance to the defendant, express or implied, that the plaintiff would not assert his trademark rights against the defendant. Aunt Jemima Mills Co. v. Rigney & Co., 247 Fed. 407 (2d Cir.), cert. denied, 245 U.S. 672 (1917); Alfred Dun[illegible]ll of London Inc. v. Dunhill Tailored Clothes, 119 U.S.P.Q. 325 (S.D.N.Y. 1958). Although acquiescence may bar relief even where the plaintiff acts diligently, whether conduct amounts to acquiescence warranting denial of relief turns on an examination of all the surrounding circumstances, and requires a balancing of the equities.

In contending that the plaintiff Foundation granted to defendants in 1950 what amounted to a "naked" license to manufacture in Jena goods bearing the Zeiss mark, thereby

abandoning its trademark rights, the defendants assume a heavy burden, for abandonment constitutes a defense only upon a showing of intent to abandon, Saxlehner v. Eisner & Mendelsohn Co., 179 U.S. 19 (1900). Although a "naked" license may be the basis for an inference of abandonment where the licensor maintains no control over the quality of goods made by the licensee, E. I. du Pont de Nemours & Co. v. Celanese Corp., 167 F.2d 484, 489 (C.C.P.A. 1948), the licensor is not limited by the absence of quality control provisions in the license agreement. If in fact the licensor has made a reasonable inspection of the merchandise bearing the trademark (even though not every item has been inspected) and there is no showing that any of the goods were below the essential quality standards, the defense must fail. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); E. I. du Pont de Nemours & Co. v. Celanese Corp., supra.

Defendants' invocation of the terms "concurrent use" and "joint use" as defenses is misplaced. Standing alone they do not represent defenses to trademark infringement claims. They simply describe factors considered in determining the equities in a particular case. To put it another way, where the products of the respective parties are not directly competitive, the plaintiff's interest in securing equitable relief may be entitled

to less weight than where the infringer markets a competitive product. Chandon Champagne Corp. v. San Marino Wine Corp., 335 F.2d 531 (2d Cir. 1964). But even in the absence of product competition a trademark holder's right to relief has been recognized, such as where expansion into the infringer's market is planned or the infringer's business practices tarnish the plaintiff's reputation. Aunt Jemima Mills Co. v. Rigney & Co., supra; S. C. Johnson & Son v. Johnson, 175 F.2d 176, 178-79 (2d Cir.), cert. denied, 338 U.S. 860 (1949).

The contention advanced by defendants to the effect that joint use of trademarks will be sanctioned where it will promote competition and curb monopoly deserves little mention. Unlike a patent, which grants to the holder the right to exclude all others from using a product or process, a trademarks gives monopoly power only with respect to a name or mark. What market power it does possess is the result of its exploitation and development of the name. Although the right to exclusive use of a valuable trademark may facilitate restraints of trade, such conduct will not be presumed, particularly since the infringer is not prevented from selling its competing product under another name. Standard Oil Co. v. Humble Oil & Refining Co., 363 F.2d 945 (5th Cir. 1966), cert. denied, 385 U.S. 1007 (1967).

Applying the foregoing principles here, defendants fail to show laches, acquiescence, abandonment, or joint use warranting denial of relief. Plaintiffs' failure to institute their suit for infringement of their United States trademarks until 1962 was justified by circumstances revealing that they were neither sleeping on their rights nor leading defendants to believe that no action would be taken, but that, on the contrary, they were for almost the entire period from 1949 to 1962 vigorously asserting and prosecuting their rights.

As early as October, 1949, following the Soviet expropriation of the Foundation's assets in Jena, the Boards in Heidenheim advised Sandmann of defendant VEB and the Jena "Foundation," that plaintiff Foundation claimed the trademarks outside the Soviet Zone but was willing to license the sale of Zeiss-marked VEB Jena manufactured equipment in West Germany, in view of the shortage of equipment. Thereafter, until the reopening of the German Patent Office in August 1950, plaintiffs had no means of enforcing their rights in the Zeiss marks in West Germany. In the meantime, by letter dated February 17, 1950, to VVB Optik, the Board members in Heidenheim claimed ownership for the plaintiff of the marks and proposed that the parties conduct discussions looking toward a license agreement which would recognize plaintiffs' rights but permit the state-owned VEBs to sell

Zeiss-marked equipment outside the Soviet Zone, at least during the post-war shortage. Although the Jena gentlemen, by letter dated April 24, 1950, disputed plaintiffs' claim of ownership (when they were threatened with West German seizure of Jena-made merchandise), they continued negotiations looking toward a license, with the result that when the Board members in Heidenheim again wrote Schrade in December 1951 offering a revocable license without prejudice to the claims of ownership asserted by the Zeiss firm in Heidenheim, the head of the Central Administration at the Ministry of Machine Construction in East Berlin instructed Schrade by letter dated February 25, 1952 to adhere to the license proposal as a "modus vivendi," which was adopted by the Jena VEBs and followed until February 1954. By that time it was clear that the Jena gentlemen, having taken steps to create the sham "Foundation" already described, did not propose to adhere to or implement the license, and the Zeiss firm in Heidenheim accordingly obtained an injunction in the District Court in Goettingen against the distribution in West Germany of Jena-made goods bearing the Zeiss marks. This was followed by the institution in May 1954 of a suit by the Heidenheim Zeiss firm in Duesseldorf against the Zeiss VEB and the DIA seeking to enjoin their sale of Zeiss-marked goods anywhere in the world. Such world-wide relief was granted by the lower court but

eventually limited in 1937 by the Federal Civil Supreme Court to the Federal Republic of Germany.

The arrangements thus adopted by the parties prior to February 1954 were negotiated on the express condition that the plaintiffs were not forfeiting their right to prohibit the defendants from using the Zeiss marks or to bring suit for infringement. In addition to the defendants' tacit recognition of plaintiffs' claim of ownership, the plaintiffs, from 1954 on, actively sought to enforce their rights everywhere. Having thus at all times been on full notice of the plaintiffs' claims, defendants here are hardly in the position of innocent or ignorant infringers. Furthermore, the arrangements between the parties during the period from 1951 to 1953 did not constitute a "naked" license waiving quality control inspection, since the Jena-made goods were distributed by the plaintiff and the parties have agreed in this action that the goods were not below established standards for Zeiss-marked merchandise.

Any further action on the plaintiffs' part to assert and preserve their rights was unnecessary, especially in the light of certain other circumstances. Prior to 1955 the annual importation of Jena-made Zeiss-marked goods into the United States was relatively small, except for one year, 1951, when they rose to $290,000. From the middle of 1955 to the beginning

of 1959 the defendants were required by the United States Government to obliterate Zeiss marks from all merchandise imported into the United States, thus rendering it unnecessary to seek relief. Moreover, the fact that the United States trademarks were registered in the name of the Attorney General who had purported to vest them barred plaintiffs from asserting claims in the marks against third parties, 8 C.F.R. §505.1, and precluded plaintiffs from challenging the Attorney General's ownership. 50 U.S.C. App. §9. It was not until the entry of a final order upon the Ercona appeal in 1960 that the plaintiffs were in a position to sue defendants for infringement of the United States Zeiss trademarks. Counsel were retained in July 1961 and after review of the complicated picture, which took several months, instituted suit on February 14, 1962. In the meantime, defendants, who were well aware of plaintiffs' claims, did not substantially increase their imports into the United States, which declined from $149,000 in 1956 to $129,000 in 1961, and there is no proof that defendants spent large sums on promoting sales or developing the market for their products in the United States.

Under these circumstances, plaintiffs' conduct cannot be said to constitute laches, acquiescence, or abandonment warranting denial of relief.

We next turn to defendants' estoppel defense based on the decision of the court in Ercona Camera Corp. v. Bowers, 120 U.S.P.Q. 100 (D.D.C. 1958), aff'd., 277 F.2d 94 (D.C. Cir. 1960). Defendants contend that plaintiffs here are estopped from questioning defendants' right to use the Zeiss trade name and marks in the United States for the reasons that (1) the issue was raised and decided in Ercona in favor of the defendants' position here, and (2) plaintiffs here, although not parties to the Ercona suit, were in privy with the United States Government, a defendant in that suit. A review of the Ercona record and comparison of it with that here reveals defendants to be wrong on both counts, and that their estoppel defense is meritless.

The Ercona suit arose out of a dispute over the question of whether the Attorney General had acquired ownership of the Zeiss trademarks by virtue of orders purporting to vest them under the Trading with the Enemy Act, 50 U.S.C.A. App. §7(c). After the Attorney General, claiming such ownership, attempted to stop Ercona Camera Corp. and Steelmasters, Inc. from importing Jena-made merchandise bearing the Zeiss marks into the United States for sale, the latter brought suit in the United States District Court for the District of Columbia seeking to enjoin the Government from interfering with such importation and claiming that the Attorney General's vesting was ineffective for the reason

that it purported to seize the Zeiss trademarks only, not as an appurtenance to any business in connection with which they were used. The district court so held and was affirmed on appeal. The defendants base their claim of estoppel on certain issues raised by affirmative defenses interposed by the Government, which were expressly left open by the court and never decided. In its answer the Government in Ercona asserted as an affirmative defense that the Jena-manufactured goods were not entitled to bear the Zeiss trademark because they were not manufactured by the Zeiss Foundation, which had been removed from Jena to Heidenheim; and that Steelmasters and Ercona were bound by judgments of the courts of West Germany which decided that Jena-manufactured goods were not entitled to bear the Zeiss trademarks. In support of that position the Government introduced the West German court decisions. In response Ercona (which was represented by counsel for defendants in the present action) successfully argued that the issues raised by the Government's affirmative defenses were irrelevant, the issue being limited to the question of whether the vesting was valid and effective. Accepting this argument, the district court, in ruling in favor of Ercona, made the following finding:

> "11. The respective rights, if any, in the 'Zeiss' trademark of the several Carl Zeiss firms now located in East Germany and in West Germany, are not in issue in this case; and the

Court expresses no opinion with respect thereto. Nor are the decisions rendered by foreign courts with respect to such rights relevant here." (120 U.S.P.Q. at 105)

Upon appeal the Government did not pursue the matter but limited itself to the question of whether the vesting was sufficient to confer ownership rights in Zeiss trademarks. The limited nature of the issue thus presented on appeal, and the failure to adjudicate the question of which of the parties, as between Heidenheim and Jena, was the owner of the trademarks, was confirmed by the Court of Appeals, which stated:

"The Attorney General has undertaken to bar the importation of Zeiss-marked Jena products solely on the premise that he owns the trademark 'Zeiss' in the United States. We are not required to consider or decide whether Zeiss-marked products produced in East Germany may be barred from the United States for some other reason. Similarly, we are not required to consider or decide whether Optik Jena possesses any rights of ownership in the mark. Our only question is whether the Attorney General acquired a sufficient interest in the United States rights in the trademark by reason of the various seizures of the mark to entitle him to bar use of the trademark in the United States by others." (277 F.2d at 97)

Although the Government claimed that the Jena-made goods were "spurious," that question was never litigated, Ercona's counsel stating it was "not in issue," and the record is clear that in referring to such goods as being what the Zeiss trademark signified, the district court was concerned only with the question of whether the goods were manufactured in Germany, without distinguishing between Jena and Heidenheim.

Furthermore, even if Ercona had made the decision of issues attributed to it by the defendants here, the plaintiffs here would not be bound by that decision because they were neither parties nor privies to that action. The evidence offered in support of defendants' argument that they knew of the case, were kept informed of its progress and supplied evidence to the Government falls far short of demonstrating the control or participation required to establish privity. See Litchfield v. Goodnow, 123 U.S. 549 (1887); United States v. California Bridge Co., 245 U.S. 337 (1917); Hartford Acc. & Ind. Co. v. First Nat'l Bank, 281 N.Y. 162, 167-68 (1939). The alleged "cooperation" on the part of plaintiffs with the Government consisted essentially of supplying copies of the judgments of the West German courts (because the State Department route for obtaining them was slow), and employing private counsel to keep them advised from time to time, but not with any regularity, as to the progress of the Government litigation. Although such counsel discussed the case from time to time with the Government's attorneys and furnished to them copies of the West German judgments, the Government did not surrender to them any degree of its control of the litigation. Citizens National Trust and Savings Banks of Los Angeles v. United States, 270 F.2d 128 (9th Cir. 1959), cited by defendants in support of their position, presented an altogether different

situation which is clearly distinguishable. Although the court there made reference to the fact that the bank had knowledge of the action and employed a legal representative to audit the earlier trial, the existence of privity was based on the insurer-insured relationship between the bank and the United States with respect to a note ruled not valid and enforceable in an earlier suit by the United States, as well as upon the assignor-assignee relationship stemming from assignment of the note by the bank to the United States. No such relationships existed here between plaintiffs and the Government in the Ercona suit.

Defendants' third argument in support of its estoppel defense, that plaintiffs are bound by the Ercona decision because they succeeded to the Attorney General's interest in the stock of Carl Zeiss, Inc. of New York (which they purchased from the Government) is likewise without merit. Carl Zeiss, Inc. was not a party to the Ercona action. Although the decision was concerned with the question of how the vesting of its stock affected the vesting of the trademarks, that issue is not relevant here. The acquisition of the stock of Carl Zeiss, Inc., therefore, does not result in the Ercona decision binding the plaintiffs with respect to an issue not decided in Ercona, namely, the right of Jena-manufactured goods to bear the Zeiss marks. Defendants' estoppel defense may therefore be dismissed as frivolous.

CONCLUSION

Plaintiff Carl Zeiss Stiftung (the "Zeiss Foundation") is entitled to the sole and exclusive right to use the various Zeiss trademarks and trade names in dispute and plaintiff Zeiss Ikon A.G. of Stuttgart is entitled to the sole and exclusive right to use the Zeiss Ikon trademark and trade name.

Since at least 1953 defendants V.E.B. Carl Zeiss Jena, Steelmasters and Ercona have infringed the trademarks of the plaintiff Carl Zeiss Foundation in the United States and have unfairly competed with the plaintiffs through the use of the trade names "Optik", "Carl Zeiss Jena VEB" and "VEB Carl Zeiss Jena" and trademarks consisting of the words "Carl Zeiss Jena" in a distinctive lens frame, the distinctive lens frame alone, and the letters "CZ".

Since in or about 1953 the defendants V.E.B. Carl Zeiss Jena, Steelmasters and Ercona have, in violation of §43(a) of the Lanham Act, from time to time falsely described and falsely designated the origin of goods imported by them into the United States and sold in United States commerce as being goods produced by a licensee of plaintiff Carl Zeiss when in fact such goods were produced by defendant V.E.B. Carl Zeiss Jena, a nationalized East German concern, which has no legal or other connection with plaintiff Carl Zeiss Foundation or any of its

affiliated firms.

Subject to resolution of the issues raised by defendants' antitrust counterclaims, trial of which has been deferred at the parties' request, each plaintiff is entitled to enforcement of its rights in its marks and trade names against the defendants and to the relief, including damages and injunctive relief, demanded against the defendants, and the defenses asserted by the defendants, other than that based on alleged violation of the antitrust laws, are dismissed for the reasons hereinbefore stated.

Review of the legal and factual issues raised by defendants' antitrust counterclaims, and of the damage issues, will proceed promptly. Toward that end the parties are directed (1) to meet together for the purpose of stipulating all facts not in dispute, designating, identifying, and marking exhibits, listing witnesses to be called, designating portions of depositions to be offered, and setting forth any objections thereto, and (2) to submit to the Court, on or before December 16, 1968, all stipulated facts, exhibits to be offered, designations of deposition testimony and objections, and trial briefs.

Pursuant to Rule 52(a), F.R.C.P., the foregoing shall constitute the Court's findings of fact supplementing

those simultaneously filed on this date and shall constitute the Court's conclusions of law.

Pending trial and disposition of the remaining issues, a final order and judgment will be deferred.

SO ORDERED.

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U.S.D.J.

Dated: November 7, 1968

No. 318

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,	:	
Plaintiffs,	:	
-against-	:	62 Civ. 850
V.E.B. CARL ZEISS, JENA; STEELMASTERS, INC.; ERCONA CORPORATION; EXAKTA CAMERA COMPANY, INC.; and CAMERA SPECIALTY COMPANY, INC.,	:	Decision with Respect to Antitrust Misuse Defense
Defendants.	:	
CARL ZEISS, INC.,	:	
Additional Defendant on Counterclaims.	:	

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MANSFIELD, D.J.

On November 7, 1968, the Court filed its decision and findings of fact with respect to plaintiffs' claims against defendants in the above-entitled action, holding that the plaintiff Carl Zeiss Stiftung has the sole and exclusive right to the use of the Zeiss name and trademarks in dispute and that plaintiff Zeiss Ikon A.G. has the sole and exclusive right to use the Zeiss Ikon name and mark. The Court further held that defendant V.E.B. Carl Zeiss, Jena, Steelmasters, Inc. and Ercona Corporation have, since at least 1953, infringed plaintiffs' trademarks, unfairly competed with plaintiffs through the use of various names and marks found to be similar to those owned by plaintiffs, and, in violation of §43(a) of the Lanham Act, falsely described and designated the origin of goods imported by them into the United States. All defenses except the antitrust misuse defense asserted by defendants were dismissed, and subject to resolution of that defense, the Court held that plaintiffs were entitled to enforcement of their rights in the marks and trade-names against defendants.

Following a hearing on December 4, 1968, we ordered trial of the antitrust defense to be severed from trial of the antitrust counterclaim and damage issues, and on February 25, 26 and 27, 1969, the antitrust misuse defense was separately tried to the Court. After careful review and appraisal of the testimony and documentary evidence received by the Court, we conclude that the antitrust misuse defense must be dismissed.

As and for their "antitrust misuse" defense, defendants assert that plaintiffs and their American subsidiary corporations, Carl Zeiss, Inc. (Zeiss, N.Y.) and Zeiss Ikon Voigtlaender of America, Inc. (ZIV, Inc.) have used their Zeiss trademarks in various ways to violate the antitrust laws in the United States, including the following:

(1) Combining with American distributors and franchise dealers to maintain prices established by Zeiss, N.Y. and ZIV, Inc. for Zeiss goods;

(2) Restricting sale of Zeiss goods by certain dealers to limited territories;

(3) Restricting sales of Zeiss goods by dealers to certain customer classes;

(4) Tying in the sale of certain Zeiss goods to purchase of other Zeiss products;

(5) Unlawful price discrimination;

(6) Precluding distributors from selling competitive goods;

(7) Submission of artificial bids to governmental agencies; and

(8) Organizing ZIV, Inc. to eliminate competition in the sale of certain Zeiss Ikon products.

Defendants further allege that plaintiffs' antitrust misuse of the Zeiss trademarks precludes entry of judgment in this action in favor of plaintiffs.

At the outset it is important to define the material issues raised by the foregoing antitrust misuse defense, especially since plaintiffs, prior to trial of that defense, moved pursuant to Rule 12(f), F.R.C.P., to dismiss the defense as a matter of law. Plaintiffs' argument in support of that motion goes essentially as follows: prior to the enactment of the Lanham Act in 1946, antitrust misuse did not bar enforcement of a valid trademark. The Lanham Act then provided that ownership of a federally registered trademark would become incontestable after five years of registration unless it was subject to certain defenses, including misuse of the trademark in violation of the antitrust laws, in which event such registration would not be deemed conclusive evidence of ownership. Therefore, argue the plaintiffs, the sole effect of the antitrust misuse defense is to defeat the incontestability that would otherwise attach to registration of the trademarks under the Lanham Act, and the defense cannot be used to preclude enforcement of the trademarks in the present case for the reason that plaintiffs have already independently established their

ownership of the marks to the satisfaction of the Court.

Both the express language of §33(b)(7) of the Lanham Act and its legislative history reveal strong support for plaintiffs' contention that the intent and effect of the Act is merely to make the defense of antitrust misuse available to defeat the conclusive evidentiary force that would otherwise attach to a trademark certificate under the Act. The relevant portion of the section provides:

> "The certificate [of trademark registration] shall be conclusive evidence of the registrant's exclusive right to use ... except when one of the following defenses or defects is established:
>
> * * * * *
>
> "(7) That the mark has been or is being used to violate the antitrust laws of the United States." (15 U.S.C. §1115(b)(7))

The principal author of the Act, Representative Lanham, in explaining the Senate-House Conference Report with respect to the Act, stated:

> "However, section 33(b) contains seven exceptions to the rule that the certificate of registration shall be conclusive evidence of the rights of the registrant even where the provisions of section 15 have been met. Some doubt has been expressed on the following points:
>
> "First. Do these seven exceptions, including the amending paragraph (7) with reference to the violation of the antitrust laws of the United States, lay down substantive rules of law or substantive defenses

which go to the validity and enforceability of the mark, or do they relate only to the weight of evidence to be given to the certificate of registration?

"Second. What is the meaning of the words 'used to violate the antitrust laws,' as found in paragraph (7) of paragraph (b) of section 33?

"It is clear from the language of the act and from the congressional history of the act as it is found in the hearings and reports that the seven 'defenses or defects' listed under paragraph (b) of section 33 are intended to relate to and to affect the weight of the evidence to be given to the certificate of registration where the owner claims the benefit of the incontestable rule ... but these seven paragraphs are not intended to enlarge, restrict, amend, or modify the substantive law of trademarks either as set out in other sections of the act or as heretofore applied by the courts under prior laws. A trade-mark registrant who is shown to have used his mark to violate the antitrust laws is denied the benefit of the rule that his certificate of registration is conclusive evidence of his right of ownership and his right to the exclusive use of the mark. Under these circumstances, his certificate of registration is only prima facie evidence of his right and he must be prepared to carry the additional burden of proof as is necessary under the laws and statutes as they existed prior to the passage of this act. One of the valuable new rights created by the act is the incontestable right after 5 years' use of the mark and the corollary thereto that the certificate of registration is conclusive evidence of ownership and the right to the exclusive use of the mark. This new and valuable right is denied to any trademark registrant who is shown to have used his mark to violate the antitrust laws, but this provision does not and is not intended to deprive the registrant of any rights he would possess or enjoy if this act were not enacted into law."

Stated in other terms, proof of violation of the antitrust laws of the United States by a registrant in the use of his mark does not under this act destroy the validity of or the right of the registrant to continue to use the mark, but it places on him a burden of proof in the event of litigation which others do not have to carry, by diluting the weight the court is to give to his certificate of registration as evidence of ownership and the right to use the mark. This is the intent and effect and the only intent and effect of the seven subparagraphs of paragraph (b) of section 33." (Emphasis added) (92 Cong. Rec. 7524)

The same views were expressed by the managers of the bill in presenting the Senate-House Conference Report with respect to the bill. Senator Hawkes, one of the three Senate conferees, and Representative Lanham, one of the three House conferees, both read the following statement drafted by the managers of the bill in the House:

"Amendment No. 28: This amendment provides that the use of a registered mark in violation of the antitrust laws shall constitute a defense to a suit by the registrant. The House recedes with an amendment substituting the words 'to violate' for the words 'in violation of.' This amendment provides an additional defense to the conclusive evidence rule of a certificate of registration of a mark which has become incontestable under section 15. It does not and is not intended to enlarge, restrict, amend, or modify the substantive law of trade-marks either as set out in other sections of this Act or as heretofore applied by the Courts. The amendment does not and is not intended to affect the validity of the mark nor affect the right of the registrant to continue use or enforce his rights in the mark.

> If it is established that a registrant has used or is using his registered mark, which has become incontestable, as the legal, causal, and efficient instrumentality to violate the antitrust laws of the United States, such registrant is denied the benefit of the rule that the certificate of registration is conclusive evidence of his exclusive right to use the mark. Under such circumstances, the certificate is only prima facie evidence of his exclusive right to use and he must be prepared to carry the additional burden of proof as though his mark had not become incontestable." (Emphasis added) (92 Cong. Rec. 7523)

The foregoing statements as to the scope and intent of the various defense provisions of the Lanham Act were affirmed by another conferee, Senator Pepper, upon submission of the Conference Report to the Senate, and the intent expressed by the authors has since been accepted by commentators. Note, The Besmirched Plaintiff and the Confused Public: Unclean Hands in Trademark Infringement, 65 Colum. L. Rev. 109, 114-115 (1965); Steed and Hunter, Trademarks Assignments and Restraints of Trade: The Maola Ice Cream Case, 45 T.M.R. 886 (1955); but see Handler, Trademarks and Antitrust Laws, 38 T.M.R. 387, 394-395 (1948).

It is true that Senator Hawkes when commenting upon the Conference Report with which he expressed agreement added the following qualification with respect to §33(b)(7):

> "I should like to add that the exception is that when the trade-mark is used to violate the antitrust laws, then such violation of the laws can be used as a defense against one who sues for infringement.

"I should like to read this statement:

> "This exception means, and should mean, that a trademark owner who sues another user for infringement must come into court with clean hands, and if he is using the mark to violate the antitrust law he is subject to be contested and to have his violation used as a defense." (92 Cong. Rec. 7636)

There are, furthermore, general statements by Senator O'Mahoney upon the floor of the Senate, 92 Cong. Rec. 7872, 7873, and by the Senate Committee on Patents, Sen. Rep. No. 1333, 79th Cong., 2d Sess., p. 2 to the effect that the use of a trademark to violate the antitrust laws is, by virtue of §33(b)(7), a defense in an infringement suit. At best, however, these statements, while seemingly contrary to the more detailed written statements previously cited, are ambiguous as to the precise scope of the defense. In view of the plain language of the Act and the detailed and explicit statements of those primarily responsible for drafting it and managing its passage, we cannot accept the ambiguous and general statements of Senator Hawkes, who expressly indicated his agreement with the more explicit statement of the House managers, Senator O'Mahoney and the Senate Committee on Patents as altering or enlarging in any way the intent and effect of the relevant provisions of the Act.

Insofar as defendants here rest their antitrust misuse defense upon §33(b)(7) of the Lanham Act, therefore, the defense

must be rejected. However, the limited purpose for which the defense may be invoked under §33(b)(7) does not automatically call for dismissal of the defense in this case. Although the issue is not free from doubt, we believe that a court, in the exercise of its equity powers, may deny enforcement of a trademark on the part of one who has used that trademark in violation of the antitrust laws. We recognize that the forces favoring exercise of such power in a trademark suit are much weaker than those calling for its exercise in patent litigation, and that decisions upholding an antitrust misuse defense in the latter are not necessarily authoritative in the trademark field. See, for example, Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942). The distinction arises from the fact that a patent represents a grant of a limited monopoly that in most instances would, absent its legalization by Congress, constitute an unlawful restraint of trade. The limited monopoly is granted in exchange for disclosure of the patented invention to the public so that it may be utilized in free competition upon expiration of the patent. A valid trademark, on the other hand, merely enables the owner to bar others from use of the mark, as distinguished from competitive manufacture and sale of identical goods bearing another mark, or even no mark at all, since the purpose of trademark enforcement is to avoid public confusion that might result from imitation or

similar unfair competitive practices rather than to authorize restraints upon trade.

Thus, although misuse of a patent almost inevitably is accompanied by unlawful restraints, the opportunity for effective antitrust misuse of a trademark, as distinguished from collateral anti-competitive activities on the part of the manufacturer or seller of the goods bearing the mark, is so limited that it poses a far less serious threat to the economic health of the nation. As a result, it has been recognized that a sharp distinction must be drawn between the antitrust misuse defense in patent infringement suits, on the one hand, and its use in trademark suits, on the other. See Waco-Porter Corp. v. Tubular Structures Corp. of America, 222 F. Supp. 332 (S.D. Calif. 1963). Although we do not accept the view that the defense should be unavailable as a matter of law, see, e.g., Folmer Graflex Corp. v. Graphic Photo Service, 41 F. Supp. 319, 320 (D. Mass. 1941), it is significant that in almost every reported instance where the antitrust misuse of a trademark has been raised as a defense, it has been rejected. In the great majority of such cases the evidence revealed the antitrust activities to be collateral and did not demonstrate that the trademark, as distinguished from collateral activities with respect to goods bearing the trademark, was itself being used as the prime and effective instrument to effectuate the antitrust

activity. E.g., O. & W. Thum Co. v. Dickinson, 245 Fed. 609, 622-623 (6th Cir. 1917), cert. denied, 246 U.S. 664 (1918); Searchlight Gas Co. v. Prest-O-Lite Co., 215 Fed. 692, 697 (7th Cir. 1914); Prest-O-Lite Co. v. Davis, 215 Fed. 349, 351 (6th Cir. 1914); Coca-Cola Co. v. Gay-Ola Co., 200 Fed. 720, 726 (6th Cir. 1912), cert. denied, 229 U.S. 613 (1913); Coca-Cola Co. v. Deacon Brown Bottling Co., 200 Fed. 105 (N.D. Ala. 1912); Weyman-Burton Co. v. Old Indian Snuff Mills, 197 Fed. 1015 (S.D.N.Y. 1912); Independent Baking Powder Co. v. Boorman, 130 Fed. 726 (D.N.J. 1904).

> "The difficulty, however, is that defendant does not allege that the mark is being used in violation of the anti-trust laws. Instead, it charges the plaintiff with a boycott, with conspiring to establish retail price control, and with various other matters, which taken together constitute a claim that the plaintiff is violating the anti-trust laws in certain respects, but not that it is using the trade-mark to do so. Such a defense is insufficient in a trade-mark infringement case. See Vitagraph, Inc. v. Grobaski, D.C.W.D. Mich. 1951, 46 F.2d 813, 814; cf. 15 U.S.C.A. §1115." (Forstmann Woolen Co. v. Murray Spices Corp., 10 F.R.D. 367, 370 (S.D.N.Y. 1950))

Since denial of a plaintiff's exclusive right to the use of his trademark is not essential to the restoration of competition, it is not enough merely to prove that merchandise bearing a trademark, however valuable the trademark, has been used in furtherance of antitrust violations. If this is all that were required, any antitrust violation in the distribution of such merchandise would result in a forfeiture of the trademark

with a consequent unnecessary frustration of the policy underlying trademark enforcement. An essential element of the antitrust misuse defense in a trademark case is proof that the mark itself has been the basic and fundamental vehicle required and used to accomplish the violation. Although the burden of establishing such a direct misuse is a heavy one, it is not insuperable. For instance, in Phi Delta Theta Fraternity v. J. A. Buchroeder & Co., 251 F. Supp. 968 (W.D. Mo. 1966), it was claimed that after a conspiracy between fraternities and others to monopolize the market in fraternity jewelry had failed, and the conspiracy could not be enforced against independent jewelry manufacturers and dealers, the fraternities began to register their insignia as trademarks for the very purpose of eliminating independent competition, and the court quite properly and understandably concluded that, if these allegations were proven, the trademarks were used as a causal instrumentality to violate the antitrust laws.

When the evidence in the present case is considered in the light of the foregoing principles, it reveals a complete failure to establish that plaintiffs used the Zeiss trademarks to violate the antitrust laws. The deficiency in proof lay in defendants' erroneous assumption that if they could show that the Zeiss trademarks were considered a valuable asset by dealers in

Zeiss-manufactured products, and that merchandise bearing the Zeiss trademarks had been used in furtherance of collateral antitrust violations, the antitrust misuse defense would be established. As we have already noted, however, the law is to the contrary, and it requires more than proof of a collateral violation.

Unquestionably the Zeiss trademarks, when affixed to merchandise of the type manufactured by plaintiffs, have value because they identify the merchandise to dealers and retail customers as manufactured by Zeiss in West Germany according to its high quality standards, and we have already found that these various Zeiss trademarks have considerable value (page 3, decision filed Nov. 7, 1968). When defendants further offered to prove that the merchandise to which the marks were affixed was the subject of various collateral anti-competitive activities of the type alleged in the affirmative defense (all of which were vigorously denied by plaintiffs) and it appeared that proof with respect to such activities would be voluminous and necessitate a long trial, we, in the exercise of our discretion, directed defendants first to adduce the proof relied upon by them (1) to establish the alleged antitrust misuse of the Zeiss trademarks, as distinguished from collateral antitrust violations involving use of merchandise bearing the marks, and (2) to show that the

plaintiffs should be held responsible for the alleged antitrust activities of Zeiss, N.Y. and ZIV, Inc. Defendants were not precluded, however, from offering any proof with respect to alleged antitrust activities that appeared relevant to these two basic threshold issues.

The proof offered by defendants convinces us that dealers in Zeiss-manufactured merchandise have valued the opportunity to sell such merchandise not because of the trademarks but because of the reputation of the manufacturer. Viewing the evidence as a whole, including defendants' offers of proof, we do not find that the trademarks were a competent producing cause which made possible the alleged antitrust violations. There was no credible evidence, for instance, to the effect that if the Zeiss trademarks had been removed from the merchandise and some other identification affixed which would show its origin (such as a mark reading "Made by Zeiss, West Germany"), sales would decline or dealers and purchasers would refuse to buy the merchandise. Nor was there any proof that plaintiffs ever did deny, or threatened to deny, a dealer the right to use the Zeiss trademarks unless he consented to engage in the alleged antitrust activities, or any proof that defendants sought to tie in the use of the Zeiss trademarks with such activities. See, e.g., Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942). Nor was there any attempt to show that the

trademarks were used as an instrument of unlawful price discrimination, such as by charging a different price for branded and unbranded instruments of like grade and quality. FTC v. Borden Milk Co., 383 U.S. 637 (1966). There was no proof that the trademarks, as distinguished from the merchandise manufactured by plaintiffs, were ever even the subject of discussion with dealers, customers or anyone else. For instance, plaintiffs never threatened to withhold the right to use the trademarks from a dealer or distributor unless he assisted in anti-competitive activities. In contrast to the complete absence of evidence that the trademarks were used as a causal instrumentality in the perpetration of any antitrust activities, there was proof that during some of the years when defendant Ercona was denied the use of the Zeiss trademarks (at the instance of the Office of Alien Property) in selling East German merchandise in the United States, its annual sales were higher than during earlier years when it used the Zeiss trademarks.

Some idea of the paucity and unconvincing nature of the proof offered by defendants is their heavy reliance on the testimony of Ben Rosenberg, an operator of a very small curiosity shop in Manhattan, who deals, among hundreds of other unrelated items, in used microscopes, cameras and telescopes. In response to a question from the Court, he testified that unless he could be

assured of the Zeiss trademarks, he would not accept a Zeiss dealership. However, after observing his demeanor and giving careful consideration to his entire testimony, we believe that it is virtually worthless on the fundamental issue. He is essentially a dealer in used merchandise (all but 2% of his sales are used goods) and as such would, of course, be more interested in proof of identification of a used item as Zeiss-made than would be an authorized Zeiss dealer who is recognized by the public and has the right to advertise himself as such. Furthermore, his testimony is at best speculation, since he has never been a Zeiss dealer and hardly appears to enjoy any prospect of becoming one, since he is essentially engaged in an unrelated business, namely the sale of used art goods, bric-a-brac, paintings and the like (amounting to only $50,000 annually, of which only a small percentage consists of used equipment of the type manufactured by Zeiss).

Defendants' reliance on various documents containing the word "ZEISS" (such as dealership agreements alleged to contain anti-competitive terms) as evidence of antitrust misuse, is misplaced. The term "Zeiss" was used in such documents to identify the manufacturer of the merchandise, and not to denote the trademark.

Defendants' antitrust misuse defense also suffers from another fatal defect: failure to connect plaintiffs sufficiently

with the alleged antitrust activities to establish their legal responsibility for such activities. The activities relied on by defendants were entirely conducted by officers and employees of two New York corporations, Zeiss, N.Y. and ZIV, Inc., neither of which is a plaintiff. Zeiss, N.Y. is a wholly-owned subsidiary of plaintiff Carl Zeiss Stiftung, and ZIV, Inc. is indirectly a subsidiary, 80% of its stock being owned by Zeiss, N.Y., 10% by Zeiss Ikon, A.G., and 10% by Voigtlaender of Germany. Although the existence of a parent-subsidiary relationship is entitled to considerable weight in determining whether the parent is legally responsible for antitrust misconduct of its subsidiary, the separate corporate entities will not be disregarded unless it appears that the subsidiary is independent of the parent in form only, National Dairy Products Corp. v. United States, 350 F.2d 321 (8th Cir. 1965), vacated on other grounds, 384 U.S. 883 (1966), with the result that the subsidiary is "merely the alter ego of the parent," Baim & Blank, Inc. v. Philco Corp., 148 F. Supp. 541, 544 (S.D.N.Y. 1957) (wholly owned distributing subsidiary held independent). For instance, in the National Dairy Products case the court found:

> "Chapman [the subsidiary] received National's approval before making capital investments; Chapman's personnel policies were established by National; Chapman's key employees had stock option plans to purchase National stock; Wise, a National

official, had power to override Chapman's president ...; Wise was kept informed on all decisions made by Chapman's president; Chapman's products were sold under the Sealtest name [National's trademark]; Wise spent many months in Kansas City (where Chapman Dairy was located); Chapman's production reports were submitted to National for approval and National's officials often conducted the monthly sales department meetings where prices, market conditions, costs and competitors' prices were discussed." (Emphasis added) (350 F.2d at 326)

In contrast to the control exercised by the parent over its subsidiary's activities in National Dairy Products Corp., the proof here reveals that the operations and activities of Zeiss, N.Y. and ZIV, Inc. were conducted independently by them and not directed or controlled by plaintiffs. Although one of the five directors of Zeiss, N.Y. has been a member of the Board of Management of the Stiftung, and two others were formerly employed by it, Zeiss, N.Y. purchases instruments from plaintiffs for its own account at the same prices charged to distributors throughout the rest of the world, including those not affiliated with plaintiffs, and it resells the instruments to dealers and other purchasers in the United States in accordance with terms established by it, not the plaintiffs. Although most of its stock in trade consists of merchandise purchased from the Stiftung, it also sells merchandise manufactured by other firms bearing trademarks other than the Zeiss marks. Furthermore, certain instruments bearing the Zeiss trademarks are distributed in the United States by Keuffel & Esser,

Inc. and Transcontinental Corp., in which neither Zeiss, N.Y. nor the Stiftung has any interest.

In the case of ZIV, Inc. none of its officers or directors are officers or directors of either of the plaintiffs, except that one member of its Board is an officer of plaintiff Zeiss Ikon. Like Zeiss, N.Y., ZIV, Inc. buys cameras and other photographic equipment from Voigtlaender of Germany for its own account and resells to dealers.

The independence of the operations of Zeiss, N.Y. and ZIV, Inc. is further evidenced by proof that their employees are hired and paid by them and not by plaintiffs. Zeiss, N.Y. and ZIV, Inc. also keep their own separate books and records in New York, prepare their own financial statements and tax returns, pay their own operating expenses, have their own pension and health insurance plans, and their own bank accounts in New York. It is particularly significant that neither Zeiss, N.Y. nor ZIV, Inc. has consulted with either of the plaintiffs, Voigtlaender or with any other affiliate of plaintiffs, with respect to appointment or termination of dealers, establishment of prices to customers in the United States or determination of discounts or bids on public contracts in the United States. Although Zeiss, N.Y. and ZIV, Inc. from time to time make written and oral reports to the Stiftung and to suppliers in Germany with respect to the results of the

company's operations in the United States and conditions in the United States market, including competitive and price conditions, there is no proof that the competitive practices, prices or other distribution activities of Zeiss, N.Y. or ZIV, Inc. were directed or controlled by either of the plaintiffs.

Viewing the circumstances in their entirety, including the parent-subsidiary relationship, the limited inter-locking directorates, and the periodic reports as to operations, we conclude that defendants have failed to establish by a fair preponderance of the evidence the degree of dominion and control required to disregard the separate corporate entities. See Baim & Blank, Inc. v. Philco Corp., 148 F. Supp. 541 (E.D.N.Y. 1957).

For the foregoing reasons it is unnecessary to determine whether the parties engaged in any of the alleged violations of the antitrust laws. The antitrust misuse defense is stricken and judgment may be entered in favor of plaintiffs in accordance with the Court's decision filed on November 7, 1968.

The foregoing shall, in accordance with Rule 52(a), F.R.C.P., constitute the findings of fact and conclusions of law supplementing the separate findings of fact filed with respect to the antitrust misuse defense.

Settle order.

March 12, 1969.

Walter R. Mansfield
U.S.D.J.

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IN THE

Supreme Court of the United States

October Term, 1970

VEB CARL ZEISS JENA; STEELMASTERS, INC.; ERCONA CORPORATION,

Petitioners,

v.

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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No. .....

IN THE

Supreme Court of the United States

October Term, 1970

VEB CARL ZEISS JENA; STEELMASTERS, INC.; ERCONA CORPORATION,

Petitioners,

v.

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Respondents.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Petitioners, VEB Carl Zeiss Jena, Steelmasters, Inc. and Ercona Corporation, pray that a writ of certiorari issue to review a judgment of the United States Court of Appeals for the Second Circuit entered on November 2, 1970.

Opinions Below

The opinion of the court of appeals is reported at 433 F.2d 686 and is printed as Appendix D.* The district court wrote two opinions. The first, on the trademark ownership question, is reported at 293 F.Supp. 892 (in abridged form) and at 160 U.S.P.Q. 97 (in full text)

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* The Appendices to this Petition ("App. —") have been separately bound.

and is printed as App. E. The second opinion, on the antitrust misuse defense, is reported at 298 F.Supp. 1309 and printed as App. F.

Jurisdiction

The judgment of the court of appeals (App. A) was entered on November 2, 1970. A petition for rehearing was denied by order dated December 16, 1970 (App. C). This Court's jurisdiction is invoked under 28 U.S.C. 1254(1).

Questions Presented

1. Whether, notwithstanding the postwar partition of Germany, the courts below properly decided questions relating to the status, identity and existence of a juristic entity created and domiciled in the territory of East Germany by applying West German rather than East German law, despite the accepted private international law principle that such questions must be determined by the laws of the country where the juristic entity has been created and continues to exist.

2. Whether the court of appeals abdicated its functions as reviewing court under Rule 44.1, FRCP, by affirming the district court's ruling on West German law on the basis of the relative credibility of expert witnesses and without itself making an independent investigation of the foreign law materials and sources.

3.(a) Whether the antitrust misuse defense provided in section 33(b)(7) of the Lanham Act is available as a defense in trademark infringement suits.

(b) Whether the antitrust misuse defense is unavailable against enforcement of a trademark integrally involved in antitrust violations unless it be shown that

the mark, separate and distinct from the goods it identifies, was itself the effective instrumentality of the antitrust violations.

4. Whether established principles of trademark law require the entry of a decree permitting concurrent use of the trademarks by both parties to this infringement suit, where plaintiffs long acquiesced in and encouraged the use of the marks on defendants' goods, the quality of which admittedly entitles them to bear the marks, and where the American public has an interest in continued access to goods from both sources.

Statute and Rule Involved

Section 33(b) of the Lanham Act (15 U.S.C. 1115b) and Rule 44.1, FRCP, are set forth in the Supplement appended to this Petition.

Statement

This trademark infringement suit concerns the United States rights to the world-renowned "Zeiss" name and marks, which for more than a century have identified the optical and mechanical precision instruments produced at the Zeiss Works in Germany. It presents important issues of private and public international law and of American trademark and antitrust law which warrant this Court's review.

The suit, one of the many litigated since the postwar partition of Germany in some thirty nations, involves two entities. Each is known as the Carl Zeiss Stiftung *. One is located in Jena, in East Germany, the original seat of the Zeiss enterprise; the other, in Heidenheim, in West Ger-

* A "Stiftung", analogous to our foundation, is a German juristic entity which acquires legal existence on approval of the founding documents by a German state.

many. Each entity insists that it is the true Zeiss Stiftung, which admittedly owns the "Zeiss" name and marks.

The Zeiss Stiftung was established in Jena and remained domiciled there until at least 1948. Its principal commercial establishments, the Zeiss Works and the Schott Works, were also in Jena. In 1945, shortly before the Russians occupied the city, the six managers of the Works and about a hundred other employees were removed to Heidenheim in the American zone, where they subsequently organized an affiliated enterprise. In June 1948, the Soviet Military Administration nationalized the Jena Works converting them to "people's owned enterprises" (VEB's). The Stiftung and its other properties were not expropriated. The former managers now claimed that the Stiftung could no longer legally exist in Jena and they caused the authorities of Wuerttemberg, where Heidenheim was situated, to establish a new Stiftung domicile there in February 1949.

This was the genesis of the trademark dispute.

The close relationship between Zeiss and Jena.

The Zeiss enterprise in Jena consists of the Zeiss Works, established by Carl Zeiss in 1846 to manufacture optical instruments, and the Schott Works, organized some years later to manufacture optical glass.

In 1889, shortly after Zeiss' death, Dr. Ernst Abbe, his partner and a former University of Jena professor, founded the Stiftung. Its charter, approved by the State of Thuringia (where Jena was located), charged it with fostering and promoting research and teaching in optics at the Zeiss Works and the University of Jena; maintaining and expanding the Works in Jena; and taking steps to improve the economic and social conditions of the workers and their fellow citizens in that city.

The charter evidences the close interdependency of the Stiftung and the Jena community. It explicitly directs that

the legal domicile of the Stiftung must always be Jena, under no circumstances to be removed from that city; that the Zeiss and Schott Works must never be transferred from Jena; and that, if the Stiftung should ever be dissolved, its assets must be divided between the city of Jena and its University. The charter further provides that the Stiftung's administration shall at all times be vested in that government office of Thuringia charged with the administration of the University of Jena.

The military occupation of Jena and departure of the Zeiss managers.

The American forces occupied Jena in April, 1945. The Stiftung was then being administered by the notorious Fritz Sauckel, the Nazi slave labor chief soon to be condemned to death at Nuremberg. The management of the two Works consisted of two boards, each having three members, all also members of the Nazi Party. In June, 1945, shortly before Jena was occupied by the Russians, the six managers and 132 other employees were quickly removed to Heidenheim. Eleven thousand employees, however, remained at the Jena Works and promptly set about to restore them to production.

Before their departure, the managers selected six trusted employees to take over the Works' management, and they thereupon assumed full responsibility. There is a dispute as to whether the departing managers intended to and actually did resign and whether the new managers formally succeeded to board membership; or whether instead the new managers were intended to act only as caretakers in the absence of their predecessors. The fact is, however, that the old managers never returned to Jena and that the new managers assumed all management functions and were universally recognized as constituting the new boards.

The nationalization of the Works.

In 1948, the Zeiss and Schott Works were nationalized. This was the last step in a process begun shortly after the German surrender. In 1945, under a Soviet order issued pursuant to the Allied policy for the demilitarization and denazification of Germany and the reorganization of the Germany economy (and similar to American, British and French military orders in the other zones), the Jena Works were sequestered. Then, in 1948, the Thuringia regional expropriation commission determined that since the Works had primarily engaged in Nazi war production and been controlled by Nazis, their nationalization was mandatory under the Potsdam agreement and the implementing Russian directives. That ruling was confirmed by the German Economic Commission, the central administrative and legislative agency of the Soviet Military Administration. The nationalization decrees followed.

The decrees dealt only with the Works. They did not refer to the Stiftung or any of its other facilities and properties. The Stiftung continued in Jena and engaged in its various health, educational and cultural activities. It continues in Jena to this day.

The establishment of the Heidenheim domicile.

The former managers in Heidenheim now caused the Wuerttemberg authorities to issue the administrative act, in February 1949, purporting to amend the Stiftung charter to provide a dual domicile, Jena *and* Heidenheim; and declaring that the old managers now constituted the administration of the Stiftung. All this, however, was concealed from Jena. Heidenheim continued to do business with the nationalized Works, purchased "Zeiss"-marked goods produced there and resold them through their West German sales outlets. In 1954, when the productive capacity of the Heidenheim enterprise was deemed suf-

ficient to meet Western demands, the Wuerttemberg authorities declared the Jena domicile cancelled and Heidenheim the sole domicile.

The continued use of the "Zeiss" trademarks on the Jena goods.

In the United States, the "Zeiss" trademarks, and especially the classic "Carl Zeiss Jena" mark, continued to be applied on Jena goods until the judgment below was entered in 1969, even as they had been since at least the turn of the century. The marks were, however, not used on Heidenheim goods until 1953, and then only in the form "Carl Zeiss" with "Jena" omitted.

The Jena goods admittedly have always met the highest standards for "Zeiss" quality. The Jena enterprise has continued to foster research and development in the optical sciences. The ten Zeiss plants in East Germany (three in Jena) now have an annual sales volume exceeding 400 million marks; more than 60% of the goods are exported abroad, 25% to non-socialist countries. They employ more than 21,000 persons, half descendants of past generations of Zeiss workers. They engage 1,300 employees in an ambitious research and development program. Their production consists of a wide range of complex instrumentation, more than 400 new instruments having been introduced since 1945. Sales of Jena goods in the United States alone amounted to 6½ million dollars during the period from 1950 to 1966.

Heidenheim's belated claims to the marks.

Heidenheim did not claim ownership of the "Zeiss" trademarks until 1950, two years after nationalization of the Jena Works. Even then, they urged Jena to continue to produce goods under the marks because only with Jena's help could they meet the rising demand and protect the

"Zeiss" goodwill. They asked Jena to enter into a cartel arrangement for the joint use of the name and marks and for a division of the world markets. Jena, however, refused to accept this proposal or Heidenheim's claim to the marks. Finally, in 1954, despairing of obtaining Jena's acquiescence, Heidenheim instituted suit in the West German courts.

The judgment there, however, barred Jena from using the marks only in West Germany. Jena goods continued to be exported under the "Zeiss" marks to the United States and elsewhere. Here, the Attorney General, who claimed ownership to the marks under a World War I vesting order and at first granted permission to imports from Jena, sought to bar further imports after 1955. Petitioners Steelmasters, Inc. and Ercona Corporation, Jena's American distributors, thereupon commenced an action in the United States District Court for the District of Columbia and there obtained an injunction restraining any interference with importation of Jena "Zeiss"-marked goods, which the court adjudged were "in all respects what . . . [the "Zeiss" mark] has always signified . . . to the trade and consuming public in the United States". *Ercona Camera Corp.* v. *Rogers,* 120 U.S.P.Q. 100 (D.D.C. 1958), *aff'd, sub. nom. Rogers* v. *Ercona Camera Corp.,* 277 F.2d 94 (D.C. Cir. 1960). Although Heidenheim was fully informed about the *Ercona* suit and assisted the Attorney General in his defense, it at no time intervened or asserted any claim of ownership to the marks.

The present action, commenced in 1962, was the first time Heidenheim asserted any rights to the "Zeiss" marks in an American court.

The proceedings below.

Respondents (plaintiffs) are the Heidenheim Foundation and its wholly-owned subsidiary, Zeiss Ikon, A.G.

(which claims the "Zeiss-Ikon" trademarks for cameras and photographic equipment). Petitioners are VEB Carl Zeiss Jena, which operates the nationalized Zeiss Works in Jena, and two of its United States distributors.

The complaint alleged that respondent had the exclusive right to the "Zeiss" name and marks; charged infringement, unfair competition and false description and designation of the Jena goods by petitioners; and sought declaratory relief, damages and an injunction. The answer denied the principal allegations of the complaint and asserted several affirmative defenses, among them antitrust misuse of the marks and laches and acquiescence by respondents. Counterclaims were also interposed for damages resulting from the antitrust violations.

The antitrust misuse defense and counterclaims and the damage issues were severed, and the trademark ownership issues were tried first. On November 7, 1968, the district court handed down its first decision. It held that the Heidenheim Foundation was identical to the Zeiss Stiftung; that it was entitled to exclusive use of the "Zeiss" name and marks in the United States; that petitioners had since 1953 been infringing those marks and falsely designating Jena goods as those of a licensee of the Stiftung; and that respondents were entitled to damages and injunctive relief (App. E, pp. 152-53).

The antitrust counterclaims and damage issues were then severed, and the antitrust misuse defense tried. On March 12, 1969, the district court handed down its second decision, dismissing that defense on the ground that even if respondents were guilty of antitrust violations, petitioners had failed to establish that the trademarks, separate and distinct from the goods, were themselves the direct instrumentality of the antitrust violations (App. F, pp. 12-14).

On April 1, 1969, the district court entered its judgment, *inter alia* declaring that respondents had exclusive rights

to the "Zeiss" name and marks, enjoining petitioners from using the name and marks on Jena goods or "in any other manner", dismissing the antitrust misuse defense, and providing that respondents should recover damages, an accounting of petitioners' profits and costs of the suit (App. B). On stipulation of the parties, trial of the counterclaims and the damage issues has been deferred pending appeal.

The court of appeals handed down its decision on November 2, 1970 (App. D). It modified the district court judgment by deleting the provisions for damages and an accounting, and in all other respects affirmed the judgment. The modification was made on the ground that petitioners were not wilful infringers, had not acted in bad faith or engaged in fraud or palming off of their goods as respondents', and should therefore not be held liable for damages or an accounting of profits (App. D, pp. 4538-40).

A petition for rehearing (and suggestion for rehearing in banc) was denied on December 16, 1970 (App. C).

Reasons for Granting the Writ

This is a trademark infringement suit, but it is also a dispute between an East German and a West German entity. Although there was substantial agreement on the applicable rules of law, the courts below nevertheless disregarded them because they brought to this case the cold war predilections and attitudes against which this Court recently cautioned in *Zschernig* v. *Miller,* 389 U.S. 429 (1968), a case also involving rights of East German nationals. Marked by such irrelevant criteria, the decisions below violate fundamental principles of private international law, read the antitrust misuse defense out of the trademark law in disregard of Congress' intent, and breach established principles of trademark law which require permitting both parties concurrent use of the disputed marks. The court of appeals additionally abdicates its responsi-

bility, under Rule 44.1, FRCP, to review the district court's foreign law determinations.

Review by this Court is warranted because important questions of federal law are involved, which have not been but should be settled by this Court, and also because the decisions below in several respects so far depart from the accepted course of judicial proceedings as to call for the exercise of this Court's supervisory power.

I

The refusal to apply East German law in determining the questions of the status and identity of the Zeiss Stiftung violates principles of private international law and calls for the exercise of this Court's supervisory power.

Since it was agreed that the Zeiss Stiftung is the owner of the "Zeiss" name and trademarks, it was necessary to determine which of the two rival foundations is the true Stiftung, that in Jena or that in Heidenheim. This in turn presented two questions: (a) Did the 1948 nationalization of the Jena Works terminate the Stiftung's capacity to exist and function as a juristic entity in Jena? (b) In any event, did the Wuerttemberg acts establishing Heidenheim as the new Stiftung domicile legally effect its transfer to that West German city?

The decisions below recognize that the American choice-of-law rule, consistent with accepted principles of private international law, requires that questions of the "legal existence, status, identity, and domicile of a foreign corporate entity or juristic personality . . . must be determined by the laws of the country where it has been created and continues to exist" (App. D, p. 4521; App. E, p. 88). See, also, Restatement, Second, Conflict of Laws, Proposed Official Draft, Part III, § 229 (1969) ("Whether the existence of a corporation has been terminated or suspended is de-

termined by the local law of the state of incorporation."); *Id.* § 303(2); Reese & Kaufman, *The Law Governing Corporate Affairs,* 58 Colum. L. Rev. 1118, 1125-26 (1958); *Petrogradsky M.K. Bank* v. *National City Bank,* 253 N.Y. 23, 30, 31 (1930, Cardozo, C.J.).

They accept also that Germany is now "a divided country" and that, in our government's view, the West German government does not have sovereignty or territorial jurisdiction *de facto* or *de jure* over East Germany, that rather East Germany remains under the control of the Soviet Union and that its government is an "agency and instrumentality" of the Soviet Union (App. D, pp. 4521-22, n. 23; App. E, pp. 121, 124-25).* Thus, since the surrender of Germany (and at the times the significant operative acts affecting the Stiftung occurred), separate and different legal systems have existed in West Germany and in East Germany. See, *infra,* pp. 14-15.

As it is common ground that the Zeiss Stiftung was created in Jena and remained domiciled there until at least 1948, the status, identity and domicile of the Stiftung must then be determined by applying East German law. But, the decisions below deliberately reject that law and instead apply West German law.

East German law is clear. The Supreme Court of East Germany has on several occasions unambiguously declared that the nationalization of the Jena Works did not impair the Stiftung's capacity to exist and function in Jena, that the Stiftung has continued there as a juristic entity, that the Jena Foundation is that Stiftung, and that the purported transfer of domicile to Heidenheim was unlawful and ineffective.

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* "This means that the Federal Government [of West Germany] cannot act in regard to the Soviet zone, whether by legislation, by administrative acts, or otherwise. . . ." Mann, *Germany's Present Legal Status Revisited,* 16 Int'l & Comp. L. Q. 760, 789 (1967). See, also, Bathurst & Simpson, *Germany and the North Atlantic Community, A Legal Survey* (1956) at p. 188; *Contemporary Practice of the United States Relating to International Law,* 57 Am. J. Int'l L. 403 (1963); see *Zschernig* v. *Miller,* 389 U.S. 429, 449, n. 7 (Harlan, J., concurring) (1968).

Every court in the world which has dealt with this issue in the *Zeiss* cases has held East German law controlling and, under that law, the Jena Foundation legally identical with the Zeiss Stiftung. *VEB Carl Zeiss Jena* v. *Firma Carl Zeiss, Heidenheim*, [1965] Entscheidungen des Schweizerischen Bundesgerichts 117 (Swiss Federal Supreme Court); *Carl-Zeiss-Stiftung* v. *Rayner & Keeler, Ltd.*, [1966] 2 All E.R. 536, 556-59, 561-62, 568, 574-75, 588-92 (House of Lords); *Carl-Zeiss-Stiftung of Heidenheim* v. *Carl-Zeiss-Stiftung Jena*, PLD 1968 Karachi 276, 296-97, 300-03 (High Court of West Pakistan); *Jenaer Glaswerk Schott & Gen., Mainz* v. *VEB Jenaer Glaswerk Schott & Gen., Jena*, Oslo Town Court (Norway), March 18, 1969; see, also, *Re Carl Zeiss Pty. Ltd.'s Application*, [1969] 43 ALJR 196 (Australia)*. The decisions of the courts below stand alone!

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* The decision of the Swiss Federal Supreme Court is typical:

> "That foreign law [to be applied in determining whether the purported change of domicile to Heidenheim was valid] can only be the law of GDR [the German Democratic Republic]. It is there that Jena, the domicile of Carl-Zeiss-Stiftung, is situated. Whether and how that domicile can be changed . . . is only for the law of GDR to decide. Neither the law system of the Federal Republic of Germany nor any decrees of its authorities could or can by a 'change of domicile' deprive GDR of Carl-Zeiss-Stiftung. Since the occupation of the East Zone, Carl-Zeiss-Stiftung has owed its continued existence exclusively to the law enforced there, not to the law of the Federal Republic of Germany. This means that neither the Stiftung organs evacuated to the West nor the authorities of Baden-Wuerttemberg could declare the East German Carl-Zeiss-Stiftung their own. The only thing they could do was to create a new foundation."

The opinions in the House of Lords are to the same effect. Thus, Lord Guest:

> ". . . The law to be applied is the law of the domicile of the Stiftung, which is in Jena, and the law is that of East Germany as shown by 'its exposition, interpretation and adjudication'

(Footnote continued on following page)

Several reasons are given why East German law should be rejected, but none withstands analysis. First, East German law is said to be irrelevant because with the adoption of the German Civil Code in 1900, the German foundation became a creature of federal German law and the separate state law systems previously governing them were largely supplanted. Because of this, we are told, section 87 of the federal Civil Code empowers the state of Wuerttemberg, as one member of the German Federation, to transfer to itself a foundation from another state of the Federation, Thuringia (App. D, pp. 4522-23; App. E, pp. 101-02).

What the courts below conveniently ignore, however, is that (whatever the German law may have been from 1905 to the end of World War II) when Wuerttemberg purported to transfer the Zeiss Stiftung in 1949, there was no longer a German Federation of which Wuerttemberg and Thuringia were constituent member states. In June 1945, the victorious Allies had divided Germany into four separate zones, where "Supreme authority . . . [was to be] exercised . . . by the British, United States, Soviet and French Commanders-in-Chief, each in his own zone of occupation . . . ." Ruhm von Oppen, *Documents on Germany under Occupation, 1945-1954,* pp. 36, 42 (1955). Each zone thus became a distinct jurisdictional entity, and the authorities in one had no jurisdiction over the affairs in another. *Deutsches Reich* v. *Weinberger,* 7 Supreme Restitution Court 231, 232 (1957); see, also, Clay, *Decision in Germany,* pp. 73, 138-39, 393 (1950). The state of Thuringia, in the Russian zone, was governed by the Soviet

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(Footnote continued from preceding page)

. . . in this case one starts with the judgment of the East German courts that the Carl Zeiss Stiftung still exists as a juristic person, notwithstanding the confiscation of its assets in East Germany by the Soviet authorities. . . ." ([1966] 2 All E.R. 536, 568)

Accord: Lord Reid, *Id.* 556; Lord Upjohn, *Id.* 574; Lord Wilberforce, *Id.* 588, 589.

authorities; Wuerttemberg, in the American zone, by the American military authorities. And although gradually the Western zones fused, culminating in the establishment of the Federal Republic of Germany in late 1949, the Soviet zone remained a completely separate jurisdictional entity, and so it remains today. See Cohn, *German Legal Science Today*, 2 Int'l & Comp. L.Q. 169, 170 (1953). Indeed, as noted *supra*, p. 12, our own government insists that this is the legal status of East Germany.

Disregard of East German law cannot therefore be justified on the premise of an extant German federal law governing foundations throughout Germany. For Thuringia, where the Zeiss Stiftung was created and continued to exist until at least 1948, and Wuerttemberg, to which it was purportedly transferred in 1949, were not then and are not now members of one German Federation.

The second reason offered for not applying East German law is that the pertinent judgments were rendered in actions to which the Heidenheim Foundation was not a party * and lacked a "reasoned objective approach" and were "saturated with Communist propaganda . . . and absence of judicial restraint" (App. D, p. 4525; App. E, p. 111). That the Heidenheim Foundation was not a party to the suits might deprive the East German judgment of *res judicata* effect, but it certainly does not impair their authority on East German law. Nor does our courts' distaste for the tone and ideological orientation of the East German judgments diminish their authority in that respect. Indeed, as Lord Wilberforce suggested in the

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* The court below notes, however, that the Heidenheim Foundation did receive notice of the commencement of one of the suits but returned it because in its view the East German tribunals were not legally constituted courts (App. D, p. 4524, n. 25).

House of Lords, their political cast may well make them more persuasive authority. [1966] 2 All E.R. at 591.*

Unquestionably the principal reason why the courts below refused to honor East German law (although they never clearly articulate it) is their disapproval of the Russian nationalization of the Works. They regard this as so offensive to American policy (which the district court found "favored postwar reconstruction of a demilitarized Germany . . . with a free private enterprise-type of economy in contrast to the communization in the Soviet zone" (App. E, p. 37)) that they consider themselves obligated to frustrate the effects of the nationalization even by "overlook[ing] technical niceties of the law" (*Id.* at 86).

The issue is, however, a red herring. First, the East German courts have held that the nationalization was limited to the Works and that the "Zeiss" name and marks were not expropriated and remain the property of the Stiftung. The legal effect of a foreign expropriation decree is, of course, determined by the jurisdiction issuing it. *United States* v. *Pink,* 315 U.S. 203, 220 (1942).

Second, the nationalization of the Works in 1948 was not opposed to Allied postwar policy in Germany. At Yalta and Potsdam, the Allies had agreed to take all steps necessary to assure that Germany could never again inflict war on the world and committed themselves to the de-

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* In contrast to our courts' preference for the West German judgments, Lord Reid was not impressed with their logic at all (noting that they were in any event irrelevant as to East German law) and instead found the East German judgments, although marked by hyperbole and "plentifully sprinkled with communist cliches", displaying "a judicial approach and a reasonable result". [1966] 2 All E.R. at 558. He cogently concluded that "even if political considerations were apparent, it would remain true that what the courts have decided is in fact the law which is being enforced in the foreign country." *Ibid.*

nazification and demilitarization of the German state and its economy. Protocol of Proceedings of Crimea (Yalta) Conference, *Foreign Relations of the United States, The Conference at Malta and Yalta, 1945,* vol. 2, p. 148. Differences later developed among the Allies, but when the occupation began, each Allied military administration sequestered, expropriated and reorganized German property and businesses in its zone. The Control Council (representing all the four Allied powers) expropriated property of Germans outside Germany. *Military Government Gazette, Germany, British Zone of Control,* pp. 27-34, 40-41, 243-46. Indeed, the American authorities considered seizing the Zeiss Stiftung's assets in the American zone, and together with the British they maintained the coal and iron and steel industries in the two zones under public ownership even after the nationalization of the Jena Works in 1948. See *Dept. of State Bulletin,* June 20, 1948, pp. 807, 809-10; *Military Government Gazette, Germany, U. S. Area of Control,* p. 22, 16 Dec. 1948.

Of course, there was no provision for payment of compensation to the German owners, who had been responsible for the prosecution of the war and many of whom were ultimately imprisoned or executed as war criminals. Even the United States confiscated German property. At the very time the Russians nationalized the Works in Jena, the American Military Tribunal ordered the confiscation of the vast Krupp complex, *United States* v. *Krupp,* 9 Trials of War Criminals Before the Nuremberg Tribunals 1327, 1450 (July 31, 1948); and that order was confirmed by the American Commander, General Clay, *Id.* 1486-87. See Manchester, *The Arms of Krupp,* pp. 596 *et seq.* (1968); cf. *Aris Gloves, Inc.* v. *United States,* 420 F.2d 1386 (Ct. Cl 1970) (postwar confiscation of American-owned plant in East Germany); *Young* v. *United States,* 97 U.S. 39 (1878); *Lamar* v. *Browne,* 92 U.S. 187 (1876); *Juragua Iron Co.* v. *United States,* 212 U.S. 297 (1909).

Certainly, nationalization of the Jena Works was amply warranted. They had served as leading enterprises in the Nazi war program. Their managers had all been Nazi Party members, and two of them, leading members of the Nazi Main Committee for War Production. To condemn the Jena nationalization as offensive to Allied policy is to falsify history.

Moreover, there was no private owner here, as in the usual foreign expropriation case. The proprietor of the Jena Works was the Zeiss Stiftung, an impersonal entity charged by its charter to apply all profits for the benefit of the workers (as wages, pensions and other employee benefits); the expansion of plant and research facilities in the Works; the University of Jena (as grants for research and teaching in optics); and the general community of Jena (as grants for the establishment, operation and expansion of hospitals, schools, kindergartens and similar municipal facilities). The only change the nationalization effected was that legal title to the Works was transferred from the Stiftung to "the people". But the same beneficiaries, the workers, plants, University and citizenry of Jena, continued to enjoy the profits of the enterprises. The loss they suffered was not from the nationalization, but rather from the decree below, which deprived them of the benefits previously available from exploitation of the "Zeiss" trademarks in the United States.

The reasons offered for not honoring East German law below, therefore, just do not parse. And the failure to apply that law in deciding the Stiftung's status violates basic principles of private international law which long have been the cornerstone of relations among civilized states. Review by this Court is vital.

II

The court of appeals' abdication of its duty under Rule 44.1, FRCP, to review the district court's determinations of German law calls for the exercise of this Court's supervisory power.

Not only do the decisions below err in refusing to accept East German law as controlling; the review by the court of appeals of the district court's determinations of West German law, regarded as controlling, violates the explicit mandate of Rule 44.1 of the Federal Rules of Civil Procedure. That Rule directs that determinations of a district court on foreign law "shall be treated as a ruling on a question of law" (Supp., *infra*, p. 30). The "clearly erroneous" standard, therefore, no longer governs review of foreign law decisions, and courts of appeals must themselves consider all relevant materials and sources and for themselves decide whether the lower court's rulings are correct. Moore's *Federal Practice* §§ 44.1.01, 44.1.05 (2d ed. 1969); *First National City Bank* v. *Compania de Aguaceros, S.A.*, 398 F.2d 779 (5th Cir. 1968); Miller, *Federal Rule 44.1 and The "Fact" Approach to Determining Foreign Law: Death Knell For a Die-Hard Doctrine,* 65 Mich. L. Rev. 613 (1967).

The district court's holding that the Wuerttemberg transfer of the Stiftung domicile from Jena to Heidenheim was authorized under section 87 of the German Civil Code was based on the opinions of respondents' German law experts, found more credible than the conflicting opinions of petitioners' experts. The court reached its conclusion notwithstanding unanimous agreement of German commentators that one German state may not lawfully transfer a foundation from another state which created it and where it is domiciled; and despite the fact that German courts have never held that this could be done. In the *Zeiss* litigation

in West Germany, the courts refused to hold that it could. In short, the district court's ruling was unprecedented and novel in German law, unsupported by judicial decision or authoritative commentary.

Notwithstanding, the court of appeals did not consider the many German treatises and commentaries referred to and extensively quoted by the parties, but went about reviewing the district court ruling in the most perfunctory fashion. It made no independent investigation of the German materials and sources, but instead treated the district court ruling as a finding of fact, merely parroted that court's analysis of the German law, and approved it because that court had found respondents' experts more credible than petitioners' (App. D, p. 4523).*

The court of appeals thus abdicated its function as a reviewing court under Rule 44.1 and established a dangerous precedent. Review of foreign law determinations is always difficult, but especially so where, as here, the foreign law questions have never been decided by the courts of the foreign jurisdiction and where the rules announced by the district court are wholly unprecedented. In such a case, responsible review demands that the court of appeals itself carefully investigate the foreign law sources. This is particularly important in the Second Circuit, where the court of appeals is called upon to review determinations of foreign law probably more frequently than in any other circuit. This Court, exercising its supervisory power, should promptly and plainly proclaim the necessity for independent investigation under Rule 44.1.

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* Credibility and demeanor are, of course, irrelevant in determining foreign law, at least where there is no dispute as to the authenticity of the sources. Cf. Miller, *supra*, 65 Mich. L. Rev. at 656-61, 688-92.

III

Whether section 33(b)(7) of the Lanham Act provides an antitrust misuse defense to trademark enforcement and the scope of the equitable antitrust misuse defense raise important questions of federal law which have not been, but should be, settled by this Court.

The decisions below so eviscerate the antitrust misuse defense that for all practical purposes it is read out of the trademark law.

Section 33(b)(7) of the Lanham Act (15 U.S.C. 1115b (7)) provides as a defense in trademark law that "the mark has been or is being used to violate the antitrust law" (Supp., *infra*, p. 29). The decisions here are, we believe, the first—certainly the first by a court of appeals—holding that statutory defense available only to refute the effect of an incontestable registration as conclusive evidence of trademark ownership. And although the defense is held still available against trademark enforcement as a matter of equity, the decisions are the first which hold that despite the fact that a mark is integrally involved in antitrust violations, it will be enforced unless the mark, separate and distinct from the goods it identifies, itself was the instrumentality of the violations.

These are important questions of federal law never considered by this Court. We believe they were erroneously decided. If the decisions below are followed, the misuse defense will, contrary to Congress' intent, become a nullity. Review by this Court is therefore necessary.

There is no question that the "Zeiss" trademarks are extraordinarily valuable, and that American dealers are therefore eager to handle "Zeiss"-marked goods and be appointed authorized "Zeiss" dealers. Nor would dealers

be interested to obtain Heidenheim goods, however excellent, without the "Zeiss" marks; for unmarked goods would naturally be suspect. These are the significant factors which enabled respondents to impose anticompetitive restraints on their American dealers.

The antitrust violations which respondents committed by use of the "Zeiss" marks were quite significant. Using the marks as bait, Heidenheim attempted to coerce Jena into a cartel arrangement for joint use of the marks and division of the world "Zeiss" markets. Together with their American distributors, respondents boycotted a Berlin firm because it had dared to ship Jena "Zeiss" goods to the United States. Respondents and their American distributors combined with United States franchised "Zeiss" dealers to maintain prices on trademarked goods, to limit dealers to specific territories and customer classes, and in other ways to restrict dealer competition. Respondents and their American distributors tied in the sale of certain "Zeiss" goods to purchase of other goods, submitted bids to governmental agencies fraudulently represented to be competitive with dealer bids, and discriminated in prices among dealers.

The district court rejected all this proffered evidence. It did so because petitioners could not meet the burden imposed by the court to establish first that the "Zeiss" trademarks, separate and distinct from the goods, were themselves "the basic and fundamental vehicle required . . . to accomplish the violations" (App. F, p. 13). When petitioners failed to satisfy this impossible burden, the court dismissed the defense. The court of appeals affirmed without discussion.

The rationale of the district court decision was twofold. First, it held that section 33(b)(7) is available only to refute the ownership evidentiary effect of a trademark registration but provides no defense to trademark enforcement. This construction, however, is directly opposed to

the declaration of Senator O'Mahoney (the member of Congress responsible for including the defense in the Lanham Act), made without contradiction from his Senate colleagues, that that subsection supplies "a defense to an infringement suit as well as . . . a ground of contestability". 92 Cong. Rec. 7873 (1946). The commentators have supported this view. See Timberg, *Trademarks, Monopoly, and the Restraint of Competition,* 14 Law and Contemporary Problems 323, 359 (1949). And so have the courts which have had occasion to consider the subsection. *Forstmann Woolen Co.* v. *Murray Sices Corp.*, 10 F.R.D. 367 (S.D.N.Y. 1950); *G. D. Searle & Co.* v. *Institutional Drug Distributors, Inc.*, 151 F.Supp. 715 (S.D. Cal. 1957); *Sanitized Inc.* v. *S. C. Johnson & Sons, Inc.*, 23 F.R.D. 230, 232 (S.D.N.Y. 1959); *Phi Delta Theta Fraternity* v. *J. A. Buchroeder & Co.*, 251 F.Supp. 968 (W.D. Mo. 1966). Moreover, since other defenses specified in section 33(b), such as fraud and abandonment, are indisputably available as defenses to trademark enforcement, the niggardly reading of subsection (7) of Section 33(b) is wholly unwarranted.

Having eliminated the statutory defense, the district court moved to demolish the equitable misuse defense, which it conceded remains available. It did this by first belittling the role of trademarks as potential instruments for anticompetitive restraint and then, on that basis, establishing a burden of proof of misuse which can be satisfied, if at all, only in the most egregious instances.

The district court, however, grossly understated the anticompetitive potential of a trademark. It is by no means true that "the opportunity for effective antitrust misuse of a trademark . . . poses a far less serious threat to the economic health of the nation" than does that of a patent and that "denial of . . . exclusive right to the use of . . . trademark is not essential to the restoration of competition" (App. F, pp. 11-12). In *FTC* v. *Procter &*

Gamble Co., 386 U.S. 568 (1967), this Court, approving an FTC order prohibiting Procter & Gamble's acquisition of the valuable Clorox mark, recognized how easily trademark advertising might be used to erect substantial anticompetitive barriers to new entry into markets. Similar considerations have informed the decisions in *Smith* v. *Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968); *Societe Comptoir de l'Indus., etc.* v. *Alexander's Dept. St.*, 299 F.2d 33, 37 (2d Cir. 1962); *Standard Brands* v. *Smidler*, 151 F.2d 33, 37 (Frank, J. concurring) (2d Cir. 1945). The serious anticompetitive consequences of trademark misuse have also been noted in economic treatises and legal writing. Chamberlin, *The Theory of Monopolistic Competition*, 56-62 & app. E (8th ed. 1962); Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 Yale L.J. 1165 (1948); Timberg, *Trademarks, Monopoly, and the Restraint of Competition*, 14 Law and Contemporary Problems 323, 359 (1949); Livermore, *On Uses of a Competitor's Trademark*, 20 Stanford L. Rev. 448 (1968); Note, *Trade-marks and the Antitrust Laws*, 68 Harv. L. Rev. 895 (1955).

The cavalier dismissal of the potentials for trademark antitrust misuse was, to say the least, most naive. It was this simplistic premise, so casually indulged by the district court, which nevertheless led to the gutting of the misuse defense below. The questions raised are undeniably important and have never been considered by this Court. They should be considered and settled.*

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*Of course, courts should be reluctant to honor the misuse defense when asserted by a trademark "pirate". But that was not the case here. The court below held that there was no showing of fraud or palming off and that petitioners had not acted in bad faith. The sound exercise of judicial discretion required that the court at least strike a balance between the competing interests, cf. *Albert Bell & Co.* v. *Catalda Fine Arts, Inc.*, 191 F.2d 99, 106

(Footnote continued on following page)

IV

The refusal below to permit concurrent use of the "Zeiss" marks on Jena goods violates established trademark principles and calls for this Court's exercise of its supervisory power.

In view of respondents' long acquiescence in and encouragement of the use of the "Zeiss" marks on Jena goods and the American public's interest in continued access to such goods under those marks, the failure of the decisions below to permit joint use of the marks by the parties plainly violates established principles of trademark law.

For six years after they first claimed ownership of the "Zeiss" name and marks (that is, from 1948 to 1954), respondents not only allowed Jena to continue to use the marks on the goods of the now nationalized Jena Works, they vigorously encouraged Jena to use them. Their motivation was a very simple one: Heidenheim production was scanty, Zeiss goods were urgently needed in the West to maintain the "Zeiss" goodwill, and Jena was the only available source. Only in 1954, when Heidenheim's productive capacity was sufficient, did respondents demand that Jena stop using the marks; and when Jena refused to stop, respondent sued in the West German courts.

In the United States, respondents' laches and acquiescence were even more egregious. The West German injunction respondents obtained applied only to West Germany; United States commerce was not affected. Jena continued to sell Zeiss goods here as always. The Attorney General, who claimed ownership in the "Zeiss" marks

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(Footnote continued from preceding page)
(2d Cir. 1951), and shape a decree that would minimize confusion from concurrent use of the "Zeiss" marks while denying respondents exclusivity because they used the marks in violation of the antitrust laws.

under a World War I vesting order, did try to stop such sales in 1955, but Jena's American distributors sued in the District of Columbia courts and, in 1958, obtained a judgment declaring the World War I vesting order ineffective, rejecting the Attorney General's claim and enjoining him from interfering with "Zeiss"-marked imports from Jena. *Ercona Camera Corp.* v. *Rogers,* 120 U.S.P.Q. 100 (D.D.C. 1958), *aff'd sub. nom. Rogers* v. *Ercona Camera Corp.,* 277 F.2d 94 (D.C. Cir. 1960). The District of Columbia court concluded, *inter alia,* that Jena goods bearing the "Zeiss" trademark were "in all respects what that mark has always signified . . . to the trade and consuming public in the United States".

Significantly, although respondents retained special Washington counsel to keep fully informed of the *Ercona* action and assisted the Attorney General in his defense, they took no steps to intervene or to assert that they, rather than the Attorney General, owned the "Zeiss" marks. It was not until 1962, after petitioners had freed the marks from the Attorney General's claim, that respondents first sued in an American court to prevent Jena from using them.

In such circumstances, long honored principles of trademark law plainly require that the courts not bar the continued use of the "Zeiss" marks on Jena goods. Respondents exploited Jena's resources for years, used its goods to promote and enhance the "Zeiss" good will, in short profited from Jena's effort. Only when Jena was no longer useful to them did they claim infringement. Before they did, about $4,000,000 of Jena goods bearing the "Zeiss" trademarks had been sold and extensively promoted and advertised in the United States under the "Zeiss" trademarks. At great expense and effort, Jena had liberated the "Zeiss" marks from the adverse claim of the Attorney General. And at all times, as the court below found, petitioners were using the "Zeiss" marks in

the good faith belief that they were entitled to do so; and in no respect did they deal fraudulently or try to palm Jena goods off as respondents'. (Indeed, by primarily using the traditional "Carl Zeiss *Jena*" mark, petitioners underscored the Jena origin of the goods.) A decree permitting concurrent use of the marks by both parties was clearly required. See, *e.g., Dwinell-Wright Co.* v. *White House Milk Co.*, 132 F.2d 822 (2d Cir. 1943); *France Milling Co.* v. *Washburn-Crosby Co.*, 7 F.2d 304 (2d Cir.), *cert. denied*, 268 U.S. 706 (1925); *Ambrosia Chocolate Co.* v. *Ambrosia Cake Bakery, Inc.*, 165 F.2d 693 (5th Cir. 1947), *cert. denied*, 333 U.S. 882 (1948); *William H. Keller, Inc.* v. *Chicago Pneumatic Tool Co.*, 298 Fed. 52 (7th Cir. 1923), *cert. denied*, 265 U.S. 593 (1924); cf. *Taylor* v. *Salt Creek Consol. Oil Co.*, 285 Fed. 532, 543-44 (8th Cir. 1922).

Moreover, a joint use decree was the only way to protect the interests of the American public. For more than half a century (until 1969, when the judgment below was entered), Americans were able to purchase the high quality optical and precision mechanical instruments from Jena under the "Zeiss" marks, and for fifteen of those years (from 1954 to 1969) they were able to buy such goods, of the highest Zeiss quality, from two sources, Jena and Heidenheim. Thus, the "Zeiss" marks afforded guarantees to the public as to the quality of the goods and their origin; and the two sources enabled them to enjoy the benefits of a freer competition than otherwise would have prevailed. See Ebb, "Patent and Trademark License Agreements in the Common Market", in Rahl, ed., *Common Market and American Antitrust*, p. 293 (1970).

The decree below terminated this order of things. Prior purchasers of "Carl Zeiss Jena" instruments can no longer be sure that they will get goods from the same source. Those looking for repair or accessory parts for their "Carl Zeiss Jena" goods are unable to get the Jena parts they desire. And, most important, the price benefits

and other advantages which the American public enjoyed from the competition between Jena and Heidenheim have been lost to them.

The balance of public and private interests is so strongly weighted in favor of a joint use decree that it is difficult to understand why such a decree was not entered. See *Avon Shoe Co.* v. *David Crystal, Inc.*, 279 F.2d 607 (2d Cir.), *cert. denied*, 364 U.S. 909 (1960); *Triumph Hosiery Mills, Inc.* v. *Triumph Int'l. Corp.*, 308 F.2d 196 (2d Cir. 1962); *Chandon Champagne Corp.* v. *San Marino Wine Corp.*, 335 F.2d 531 (2d Cir. 1964); *Haviland & Co.* v. *Johann Haviland China Corp.*, 269 F.Supp. 928 (S.D. N.Y. 1967). And any possibility of consumer confusion could certainly have been eliminated or significantly reduced by appropriate safeguards in a joint use decree. See, *e.g.*, *Miss Universe* v. *Patricelli*, 408 F.2d 506 (2d Cir. 1969).

The injunction barring continued used of the "Zeiss" marks on Jena goods violates long honored trademark principles and calls for this Court's exercise of its supervisory power.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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April, 1971

SUPPLEMENT

Statute and Rule Involved

1. Section 33(b) of the Lanham Act (15 U.S.C. 1115b) reads, as follows:

> SEC. 33(b) (15 U.S.C. 1115b). SAME—WHEN CONCLUSIVE EVIDENCE OF EXCLUSIVE RIGHT TO USE MARK
>
> If the right to use the registered mark has become incontestable under section 15 hereof, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce or in connection with the goods or services specified in the affidavit filed under the provisions of said section 15 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:
>
> (1) That the registration or the incontestable right to use the mark was obtained fraudulently; or
>
> (2) That the mark has been abandoned by the registrant; or
>
> (3) That the registered mark is being used, by or with the permission of the registrant or a person in privity with the registrant, so as to misrepresent the source of the goods or services in connection with which the mark is used; or
>
> (4) That the use of the name, term, or device charged to be an infringement is a use, otherwise than as a trade or service mark, of the party's individual name in his own business, or of the individual name of anyone in privity with such party, or of a term or device which is descriptive of and used fairly and in good faith only to describe to users the goods or services of such party, or their geographic origin; or

(5) That the mark whose use by a party is charged as an infringement was adopted without knowledge of the registrant's prior use and has been continuously used by such party or those in privity with him from a date prior to registration of the mark under this Act or publication of the registered mark under subsection (c) of section 12 of this Act: *Provided, however,* That this defense or defect shall apply only for the area in which such continuous prior use is proved; or

(6) That the mark whose use is charged as an infringement was registered and used prior to the registration under this Act or publication under subsection (c) of section 12 of this Act of the registered mark of the registrant, and not abandoned: *Provided, however,* That this defense or defect shall apply only for the area in which the mark was used prior to such registration or such publication of the registrant's mark; or

(7) That the mark has been or is being used to violate the antitrust laws of the United States (Amended Oct. 9, 1962, 76 Stat. 769).

2. Rule 44.1 of the Federal Rules of Civil Procedure reads, as follows:

DETERMINATION OF FOREIGN LAW

A party who intends to raise an issue concerning the law of a foreign country shall give notice in his pleadings or other reasonable written notice. The court, in determining foreign law, may consider any relevant material or source, including testimony, whether or not submitted by a party or admissible under Rule 43. The court's determination shall be treated as a ruling on a question of law.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

VEB CARL ZEISS JENA, *et al.*,
Petitioners,

v.

CARL ZEISS STIFTUNG, *et ano.*,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION TO PETITION

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May 1971

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF OF RESPONDENTS IN OPPOSITION TO PETITION

Opinions Below

The opinion of the District Court on the trademark ownership issue (App. E to Petition) is reported at 293 F.Supp. 892 in abridged form, and at 160 USPQ 97 in full text. The District Court's Findings of Fact supplementing this opinion were omitted from petitioners' Appendices and are printed in the Supplement to this brief.*

* The Supplement to this brief ("S-...") has been separately bound.

The District Court's opinion on the antitrust misuse defense (App. F to Petition) is reported at 298 F.Supp. 1309. The District Court's Findings of Fact With Respect to Antitrust Misuse Defense supplementing its opinion were omitted from petitioners' Appendices and are printed in the Supplement hereto.

The opinion of the Court of Appeals for the Second Circuit (App. D to Petition) is reported at 433 F.2d 686.

Questions Presented

The issues presented for review by this Court, none of which calls for the exercise of this Court's supervisory power or involves an important question of federal law, are as follows:

1. Whether the Court of Appeals erred in upholding

(a) the District Court's finding of fact that respondent Carl Zeiss Stiftung is "the surviving owner" entitled to exclusive use of the "Zeiss" name and trademarks in the United States under the well-settled United States policy against giving effect to foreign expropriations with respect to trademarks in this country, and

(b) the District Court's refusal to adopt, with respect to American trademarks, decisions of the courts of East Germany—the unrecognized expropriating state.

2. Whether the Court of Appeals erred in sustaining the District Court's findings on German law, even assuming that the Court of Appeals did not make an independant investigation of such law but limited its review to the testimony and materials presented by the parties.

3. Whether the Court of Appeals erred in affirming the District Court's dismissal of the antitrust mis-

use defense, where the latter had found, as a matter of fact, that there was no evidence that the trademarks in question had been used as an instrumentality to effect alleged antitrust violations and that the evidence showed that the alleged antitrust violations could not, in any event, be attributed to either respondent.

4. Whether the Court of Appeals erred in affirming the District Court's determination that, on the facts of this case, the entry of a decree permitting petitioners to use the Zeiss name and marks concurrently with respondents was not warranted and would result in confusion and deception of the consuming public.

Statement of the Case

A. The Parties and the Proceedings Below

Respondents are the Carl Zeiss Stiftung (or Foundation), a German corporate entity, which has, under the firm name "Carl Zeiss", engaged since 1891 in the business of manufacturing and selling high-grade optical instruments and related products, and one of its subsidiaries, Zeiss Ikon AG, a German corporation, engaged since 1926 in the manufacture and sale of photographic equipment. Petitioners herein (three of the five defendants) are VEB Carl Zeiss Jena ("VEB"), a "people's owned" East German enterprise created by the East German regime in 1951 to operate the expropriated Zeiss works in East Germany, and two American firms which have distributed products manufactured by petitioner VEB in the United States at various times since 1950. Carl Zeiss, Inc., a wholly-owned New York subsidiary of respondent Carl Zeiss Stiftung, was made an additional defendant with respect to petitioners' counterclaims.

Federal jurisdiction was invoked under the Lanham Act, 15 U. S. C. §§ 1051, *et seq.*, on the basis of Federal trademark registrations issued to respondents, and under 28 U. S. C. §§ 1331 and 1338.

The case was tried to the Court (Mansfield, J.), without a jury, in two parts: first, a six-week trial on the issues relating to the ownership and use of the trademarks, and later a three-day trial on the antitrust misuse defense. The antitrust counterclaims were deferred for trial after the appeal.

After the first trial, in which the Court heard the testimony of 20 witnesses, including six experts on German law, four of whom were proffered by petitioners, and admitted 554 exhibits and extensive deposition testimony, the Court made 481 findings of fact (S-1 to S-126) supplementing its opinion of November 7, 1968 (App. E).* After the second trial, the Court made 27 additional findings of fact (S-127 to S-135) on the issues raised by petitioners' antitrust defense supplementing its opinion of March 12, 1969 (App. F).

Unlike the usual trademark case, it has from the beginning been conceded that the names and marks being used by petitioners and respondents are used on competitive goods and are confusingly similar (J. A. 53, ¶ 82). The District Court so found (F. F. 479, S-125), a finding which was affirmed by the Court of Appeals upon "ample evidence in the Record" (App. D, 4536).

The principal question which the District Court tried and determined in respondents' favor was whether respondent Carl Zeiss Stiftung is legally identical with the original Carl Zeiss Stiftung which the parties have stipulated has continued to exist since 1891 and to own the Zeiss name and

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* References preceded by "J.A." are to pages of the joint appendix filed in the Court of Appeals. References preceded by "App." are to appendices filed by petitioners in this Court. References preceded by "F.F." and by "A.T.F.F." are respectively to the District Court's findings of fact on the trademark ownership issues and its findings on the antitrust defense which have been omitted from petitioners' appendices and are printed in the Supplement to this Brief ("S-...").

marks in the United States (J. A. 215-216, ¶¶ 11-13; J. A. 236-237). Applying the well-settled American public policy against giving effect to foreign expropriation decrees with respect to property rights in the United States, the District Court determined this question in favor of respondents on the basis of the proven facts (App. D, 82-86). At the same time, the District Court found that the Foundation which is claimed to exist in Jena, East Germany, is not factually or legally identical with the original Foundation but is a sham and façade created by the East German regime solely for the purpose of claiming trademarks outside East Germany (App. D, 85; Supp., F. F. 355-374, S-101 to S-106).

The Court of Appeals held that the District Court's findings of fact supporting its conclusion that respondent Carl Zeiss Stiftung was the true foundation rested on "substantial credible evidence" (App. D, 4520), upheld the District Court's conclusion that respondents were entitled to exclusive use of the Zeiss names and marks in the United States, and held that the District Court had properly rejected the defenses of laches, acquiescence and abandonment (App. D, 4531-4534). It agreed with the District Court that a decree permitting joint or concurrent use was not warranted and would "result in confusion or deception of the consuming public" (App. D, 4534-4537). It also affirmed the District Court's findings with respect to the factual issues raised by the antitrust defense and the District Court's interpretation of the law applicable thereto (App. D, 4537-4538).

The only issue on which the Court of Appeals disagreed with the District Court was the issue of damages. On this question, the Court of Appeals concluded that it could not find under all the circumstances that petitioners had acted in bad faith in asserting their claims to the marks and ruled that injunctive relief satisfied the equities of the case (App. D, 4540).

B. The Facts

Respondents cannot accept petitioners' statement of the facts, which is neither accurate nor complete. The facts, as established by the evidence, are fully set forth in the factual portions of the opinions of the Court of Appeals (App. D, 4501-4519) and the District Court (App. E, 7-82) as supplemented by the District Court's findings of fact (S-1 to S-126). The facts established by the evidence with respect to the antitrust issues are set forth in the opinion of the District Court (App. F) and its findings of fact (S-127 to S-135). Petitioners' selective and tendentious version of the facts should therefore be ignored.

The basic facts essential to an understanding of the case may be briefly summarized as follows.

Carl Zeiss (herein called the "Zeiss firm") was originally established by Carl Zeiss in 1846 as a sole proprietorship in Jena, in the Grand Duchy of Saxe-Weimar-Eisenach, was transformed in 1875 into a partnership between Carl Zeiss and Professor Ernst Abbe, and since 1891 has been owned and operated by the Carl Zeiss Stiftung (or "Foundation"), established by Professor Abbe for that purpose in 1889. (J. A. (Exs.) 362; F. F. 1-13, S-1 to S-4).

Unlike the usual foundation, the Carl Zeiss Foundation was not charitable or public in nature, but was established as a private foundation for the express purpose of owning and operating the Zeiss optical business for profit (F.F. 22, S-5 to S-7). The Foundation was merely the owner, like a sole proprietor or stockholder, of the business assets of the Zeiss firm, which included the Zeiss name and the marks used in the firm's business.

Between 1891 and 1945 the Foundation acquired interests in numerous other commercial enterprises, principally in Germany, including the Schott firm (F. F. 14, 47, S-4, S-14). Since the early 1900's (with interruptions during the two World Wars) the Zeiss firm has sold high quality

optical and other scientific instruments in the United States under the Zeiss name and the trademarks "Zeiss", "Carl Zeiss Jena", "CZ", and many others (F. F. 11, S-3).*

In 1945 the Zeiss firm had its principal place of business in Jena, included in July of that year in the Soviet Zone of Occupied Germany (F.F. 44, 52, 331, S-14, S-16, S-97). Under its "Statute" (or charter), the Foundation was domiciled in Jena (F. F. 23, S-7). However, toward the end of the brief interval between April 13 and July 1, 1945, during which Jena was occupied by United States Armed Forces, the American Army, in anticipation of the Soviet arrival, deported the Boards of Management of the Zeiss and Schott firms, together with 132 of the firms' leading scientists, to Heidenheim, Wuerttemberg, in the United States Zone of Occupation, where they established a factory to assist in the continuing war effort against Japan (F. F. 38, 53-58, S-13, S-16 to S-17).

The evacuated Boards of Management did not resign prior to their departure, but designated certain Zeiss and Schott employees to manage the firms in Jena as caretakers during their absence, which was then expected to be of short duration (F. F. 61-65, 72, 74-75, 82, S-17 to S-18, S-20, S-21, S-22). Some time after the deportation, when it became apparent that the enforced absence of the Zeiss and Schott Boards of Management from Jena might be of longer duration than expected, a dispute as to management authority arose between the Boards of Management in the West and the caretakers in Jena (who were then under the control of the Soviet occupying forces) (F. F. 102-119, S-28 to S-34). In order to resolve the dispute, and to avoid the appearance of control of the firms' businesses in Jena by the deported managements in the West, which it was feared would pre-

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* Since 1953 the trademark principally used by the Zeiss firm has been the mark "Carl Zeiss". The use of the "Carl Zeiss Jena" mark was gradually discontinued after the expropriation of the Jena works in 1948 (J.A. 323-324).

cipitate unwelcome steps by the Soviet occupiers, an arrangement was made whereby the deported managements would refrain from exercising their functions with respect to the management of the businesses in Jena for as long as they were forced to be absent from Jena, and would temporarily acknowledge that the Jena caretakers were the sole responsible management in Jena (F. F. 122-179, S-35 to S-60).

In June 1948 (F.F. 180, 186-193, S-60, S-63 to S-65) all of the commercial properties of the Foundation located in the Soviet Zone, including all assets of the Zeiss and Schott firms (together with the trademarks used in their businesses) were expropriated without compensation and transferred to state ownership (F. F. 225-227, 237-244, S-75, S-77 to S-78). Petitioners' statement (Petition, p. 6) that the Zeiss and Schott works were "nationalized" as part of the Allied policy of demilitarization and reparation is contrary to the facts of record. As the Court of Appeals noted, the District Court properly found that the 1948 expropriations had nothing to do with the post-war policy of reparation, which resulted in the dismantling by the Soviet Union of the Zeiss works beginning in October 1946 (App. D, 4507, 4520, n. 21).

The District Court found that the expropriation rendered the Foundation inoperative and terminated its existence as a viable entity in the Soviet Zone. It now had no statutory organs, no commercial enterprises, no profits or surplus with which to continue the businesses and to carry out its statutory obligations, and no further right or opportunity to engage in commercial operations there (App. E, 53-58; F. F. 247-263, S-79 to S-82).

The Foundation and the firms, however, did have valuable industrial and other assets located outside the Soviet Zone of Germany, which could not be reached by the expropriation measures, even though they were intended to have such effect (F. F. 270-271, 273, S-83 to

S-84). The managements of the Zeiss and Schott firms which had been transported to Heidenheim, Wuerttemberg, in the American Zone, took steps to preserve the assets of the Foundation and the firms and other Zeiss affiliates in the West, to continue carrying on the Foundation's commercial activities outside the Soviet Zone, and in good faith to carry out the purposes for which the Foundation had been organized, which were no longer possible of fulfillment in the East (F. F. 274-281, 323-327, 420, S-85 to S-87, S-95 to S-96, S-115).

With the disappearance of the Foundation in the Soviet Zone, and the transformation of the Jena caretaker managements into state functionaries operating the expropriated firms' assets for the benefit and under the direction of the East German Communist regime (not the Foundation), Heidenheim, where the Board of Management and leading scientists of the Zeiss firm were acting, became *de facto* the principal place of business of the Zeiss firm and the administrative center of the Foundation, as its owner and operator (F. F. 305-307, S-92). This state of affairs received confirmation *de jure* in February 1949 in the form of a decree of the Government of Wuerttemberg amending the Foundation's statute by adding Heidenheim as a new statutory seat and decreeing that the Foundation was to be administered by the Zeiss Board of Management in Heidenheim (F. F. 281, S-87).* Under German law the Wuerttemberg Government had the power to take this action despite a statement in the Foundation's Statute that the provision relating to domicile could not be amended, since the Statute was subject to overriding governmental action (F. F. 289, S-89). The validity of the Wuerttemberg decrees was confirmed by a 1967 Law of the West German Parliament (F. F. 320, S-95). Both the District Court and the Court

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* A further decree, eliminating the reference in the Statute to Jena as a domicile of the Foundation, was issued by the Wuerttemberg Government in May 1954 (F. F. 311, S-93).

of Appeals held that these were "acts of state" whose validity under German law could not be challenged in our courts (App. E, 117-126, App. D, 4530).

Between 1948 and 1953 the Zeiss firm in Heidenheim cooperated commercially with VEB, the "people's owned" enterprise in Jena, and for a time permitted it to sell Zeiss-marked products under certain specified conditions (F. F. 345-353, 375-380, S-99 to S-101, S-106 to S-107). Petitioners' statement (Petition, p. 8) that VEB was asked to enter into a "cartel arrangement" and refused to do so is contrary to the findings of fact which the Court of Appeals held to be supported by the evidence (F. F. 375-383, S-106 to S-107; A. T. F. F. 11, S-130; App. D, 4537). The cooperation deteriorated as the East German regime tightened its grasp on the expropriated works (after a workers' uprising in Jena in June 1953) and was terminated at the end of 1953 as legal battles loomed (F. F. 381-384, S-107).

In preparation for the impending legal struggle, the East German regime which had been established by the Soviet occupying forces in October 1949 as the "German Democratic Republic", while refusing to revive the Foundation by returning its expropriated enterprises, sought instead to "warm up" the defunct Foundation and give it the appearance of activity by making appointments to non-existent Boards of Management and other positions long vacant (F. F. 355-374, S-101 to S-105). This sham entity, which the District Court termed "a pseudo-type organization" (App. E, 75-77), was nothing but a facade and subterfuge for claiming identity with the original Foundation and ownership of exclusive rights in all the Zeiss marks outside East Germany (F. F. 370, 388-390, S-104, S-108 to S-109).

In February 1954 respondent Carl Zeiss took legal action to protect its rights by obtaining an injunction in the

courts of West Germany against the continued sale of Jena-made Zeiss-marked goods by a West German distributor of petitioner VEB (F. F. 387, S-108). Thereafter further litigation ensued in West Germany and proliferated into a global confrontation with respect to the Zeiss marks in the courts of various countries throughout the world (F. F. 387-404, S-107 to S-112).

Since February 1954 there has been litigation with respect to the Zeiss marks in various countries throughout the world (F. F. 387-404, S-107 to S-112).

The situation in the United States was complicated prior to 1961 by the fact that the Attorney General purported to own the American Zeiss trademarks pursuant to vesting orders (J. A. 946-948; F. F. 421-427, S-115). He also owned all of the stock of the Zeiss firm's New York sales subsidiary, Carl Zeiss, Inc. (F. F. 429-430, 452, S-116, S-120). In 1960 the Court of Appeals for the District of Columbia Circuit held that the Attorney General's attempt to vest the marks had been ineffective (F. F. 443-451, S-118 to S-120). At the end of 1960 the Attorney General sold the stock of Carl Zeiss, Inc. to respondent Carl Zeiss on a Presidential determination that, consistent with the foreign policy interests of the United States and in order that the American consumer not be confused or misled, only respondent Carl Zeiss Foundation should be recognized as the legitimate Carl Zeiss Foundation and its operating firms as the producers of genuine Zeiss products (F. F. 452-453, S-120). Some 13 months later, February 1962, this action was commenced (App. E, 2).

Reasons for Denying Certiorari

This case presents no important, novel or difficult question relating to the proper functioning of the Federal courts and involves no departure from the accepted and

usual course of judicial proceedings. Therefore there is no call for this Court to exercise its supervisory powers. Nor is any important question of Federal law raised which this Court should settle. This case, as is readily apparent from the above recital of facts, is a unique case decided primarily on its peculiar facts. The questions raised by the petition are insubstantial and specious.

I

The Court below properly applied the United States public policy against giving effect to foreign expropriations.

The District Court and the Court of Appeals rested their determinations that respondent Carl Zeiss Stiftung should be recognized as the surviving owner of the Zeiss name and marks in the United States on the age-old rule against extra-territorial recognition in this country of foreign expropriation decrees. The District Court, in applying this rule, made the following findings of fact (findings which the Court of Appeals determined were amply supported by the evidence):

> (1) respondent Carl Zeiss Stiftung is the good-faith continuation of the orginal Foundation of that name created by Professor Abbe in Jena in 1891 (App. E, 84-85; F. F. 415-420, S-114 to S-115);
>
> (2) after expropriation of the Zeiss firm (together with the trademarks) and the other industrial properties of the Foundation in East Germany in 1948 the Foundation ceased to function or have any operating organs or administrative center or domicile in Jena (thus answering the first of the two questions posed by petitioners (Petition, p. 11) in the negative) (App. E, 50-60; F. F. 237-264, 306, S-77 to S-82, S-92);

(3) the so-called Foundation in Jena, East Germany, is not identical with or the successor to the original Foundation but is a sham or facade instrumentality established in 1951 by the East German regime for the sole purpose of claiming trademarks outside East Germany belonging to the Foundation and turning them over to VEB to use in connection with its operation of the expropriated works (App. E, 75-77, 85; F. F. 355-374, S-101 to S-105).

The District Court also concluded that the Wuerttemberg decrees (later confirmed by Act of the West German Parliament) were effective to give the Zeiss Foundation a new home in Heidenheim, West Germany (App. E. 90-129; F. F. 281-320, S-87 to S-95). It did so on the basis that such decrees and Act had been demonstrated to be valid under provisions of German law which were the same in both parts of divided Germany; that in any case they were entitled to be regarded as "acts of state" of a recognized foreign government and thus free from challenge as to their validity under German law; and that they were also entitled to recognition under the principles of comity for purposes of determining ownership of property in the United States. The Court of Appeals unanimously agreed (App. D, 4521-4525, 4530).

Petitioners pose the problem before the Courts below as a simple "choice of law" problem. They contend that the Courts below violated "basic principles of private international law" by refusing to give conclusive effect to an advisory opinion and an *ex parte* judgment of the Supreme Court of the unrecognized government of East Germany in determining whether the United States "Zeiss" names and marks should be awarded to respondent Carl Zeiss/Foundation or to the East German regime's instrumentality, petitioner VEB. There is no merit to this contention.

As the Court of Appeals noted with approval (App. D, 4519-4520), the District Court viewed the central issue

which it faced as one of determining, in view of the well-settled United States policy against extra-territorial recognition of expropriation decrees, the identity of the surviving owner of the United States names and marks (App. E, 82-85). Noting that the objective of the policy was "to prevent the unfair consequences of expropriation without compensation", the District Court found that as a matter of fact and as a matter of equity and fundamental fairness, the *de facto* existence and operation of respondent Carl Zeiss Foundation in West Germany as a good faith effort to continue what remained of the original Abbe Foundation after expropriation of its assets in the East and its inability to function there, called for its recognition as the surviving owner of the American marks, citing this Court's decision in *Baglin* v. *Cusenier Co.*, 221 U.S. 580 (1911) (App. D, 85). The Court of Appeals found that the evidence supported the District Court's findings of fact in this respect and agreed that the evidence, as well as fundamental fairness and equity, dictated a decision in favor of respondent as the true Foundation (App. D, 4520-4521).

These facts in and of themselves support rejection of petitioners' contention that the Courts below should have determined the ownership of the United States names and marks in accordance with the views of the courts of the expropriating state. Such blind application of the decisions of the courts of the expropriating state would in every case lead to the complete frustration of American public policy against giving foreign expropriation decrees extra-territorial effect with respect to United States trademarks. The Courts below also properly noted that the determination of the East German puppet courts as to the identity of the Carl Zeiss Foundation should be rejected because they not only lacked objectivity but were decisions of courts of an unrecognized state dealing with matters extending beyond the borders of East Germany which were

not purely local, private or domestic* (App. D, 4521-4525; App. E, 93-94, 110-114). Petitioners' statement that the avowed political cast of the East German decisions makes them "more persuasive authority" than they might otherwise be (Petition, p. 16) defies credulity.

Petitioners' assertion that the Courts below "stand alone" in refusing to apply East German law is in error, as well as irrelevant (App. D, 4525-4529). Courts in Austria, West Germany, Belgium, Holland, France, and Italy have rendered final decisions on the basis of the principle applied by the Courts below against giving effect to foreign expropriation decrees and have refused to give East German law any effect in determining ownership of the Zeiss marks in those countries.

Thus, petitioners incorrectly characterize the basis on which the Courts below refused to apply the decisions of the East German courts (Petition, pp. 14-16). Petitioners' arguments rest on factual contentions which were rejected by the Courts below and which raise no question relating to the proper functioning of the Federal courts (App. E, 36-38, 50-60; F. F. 247-253, 262-269, S-79 to S-80, S-81 to S-83).

II

The Court of Appeals did not "abdicate" its "duty" under Rule 44.1 of the Federal Rules of Civil Procedure.

Petitioners' contention that the Court of Appeals violated the "explicit mandate" of Rule 44.1 of the Federal Rules of Civil Procedure (Petition, p. 19) is frivolous.

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* In *Zschernig* v. *Miller*, 389 U.S. 429 (1968), to which petitioners allude (Petition, p. 10), this Court did not caution against "cold war predelictions and attitudes." It held that the states were not free to impose conditions of reciprocity before allowing East German nationals to inherit property because this was a matter properly left to the Federal government. In the instant case no issue of state encroachment on a Federal domain is raised and the Federal government has spoken forcefully in favor of recognition of respondents (F. F. 453, S-120).

Rule 44.1—which, of course, governs procedure in district courts, not in courts of appeals (FRCP, Rule 1)—on its face does not mandate anything. While the rule provides that a district court's determination as to foreign law is to be treated "as a ruling on a question of law", there is no rule or statute—and petitioners cite none—which obliges a court of appeals in reviewing a district court's determination on foreign law to go outside the testimony and materials presented by the parties and make an independent investigation of foreign materials and sources. See *Bartch* v. *Metro-Goldwyn-Mayer,* 391 F.2d 150, 155, n. 3 (2d Cir. 1968); see also Miller, *Federal Rule 44.1 and the "Fact" Approach to Foreign Law,* 65 Mich. L. Rev. 613, 688-692 (1967). Nor did petitioners at any time request the Court of Appeals to do so.

Petitioners' demand that this Court "proclaim the necessity for independent investigation [of foreign law] under Rule 44.1" by a Federal court of appeals is wholly untenable. In particular, in this case, where the foreign law questions were thoroughly presented in the District Court through the testimony of six German law experts and where the parties, aided by their German counsel, made extensive reference to German sources and materials in their briefs to the Court of Appeals, there is no basis for a contention that that Court did not carefully consider all available foreign law sources.

III

The dismissal of the antitrust misuse defense raises no important question of Federal law.

The decisions below are not only clearly correct in their interpretation of the scope of § 33(b)(7) of the Lanham Act (15 U.S.C. § 1115(b)(7)) but review by this Court is in any case unwarranted because the dismissal of the antitrust misuse defense also rested on an alternative factual ground—something which petitioners conveniently ignore.

The factual allegations concerning the alleged antitrust violations related to the distribution of Zeiss-marked goods in the United States by Carl Zeiss, Inc., a New York subsidiary of respondent Carl Zeiss Foundation, which is not a plaintiff in the action but a defendent on the counterclaims; it is not seeking to enforce any rights in the Zeiss name and marks. After considering the evidence presented by petitioners, the District Court found as a fact that they had failed to establish that Carl Zeiss, Inc.'s alleged antitrust violations, even if proven, were the acts of its parent, respondent Carl Zeiss, or of its sibling, respondent Zeiss Ikon (App. F, 21; A. T. F. F. 12-25, S-131 to S-135). These findings of fact were held by the Court of Appeals to be amply supported by the evidence (App. D, 4537).

Thus, even if the Courts below erred in holding that § 33(b)(7) of the Lanham Act was procedural in nature and that antitrust misuse of a trademark required proof that the mark was being used as a "causal instrumentality to violate the antitrust laws," the decision below does not warrant review by this Court, since the factual findings with respect to the relationship between respondent Carl Zeiss and its subsidiary Carl Zeiss, Inc. were alone sufficient to warrant dismissal of the antitrust defense.

In any event, petitioners are clearly mistaken in their interpretation of § 33(b)(7).

The District Court carefully reviewed the entire legislative history of § 33(b)(7) and relied chiefly on statements made by Representative Lanham, the principal author of the Act, and Senator Hawkes, one of the three Senate conferees and authors of the Senate-House Conference Report (App. F, 5-8).

The District Court noted that these statements as to the scope and intent of the statutory antitrust defense were affirmed by another conferee, Senator Pepper, upon submission of the Conference Report to the Senate, and that the

intent expressed by the authors has since been accepted by the courts and commentators (App. F, 7-8). See *Cott Beverage Corp.* v. *Canada Dry Ginger Ale, Inc.*, 146 F. Supp. 300 (S.D.N.Y. 1956), *appeal dismissed*, 243 F.2d 795 (2d Cir. 1957), in which the Court ruled:

> "The Lanham Act deprives a misuser of a trademark of certain evidentiary advantages, but it does not strip him of his trade-mark." (146 F.Supp. at 303)

As a commentator, cited by the District Court, recently observed:

> "Few cases have considered the scope of Section 33(b)(7); the effect of the antitrust defense and its applicability to registrations that are not incontestable remain in dispute. The plain language and legislative history suggest that the defense affects merely the evidentiary weight of registration rather than the validity of the mark or the merits of the entire controversy. The provision is by its terms applicable only to registrations that are incontestable." (Note, "The Besmirched Plaintiff and the Confused Public: Unclean Hands in Trademark Infringement", 65 Col.L.Rev. 109, 114-115 (1965)).

In view of the plain language of the Act and the detailed and explicit statements of those primarily responsible for drafting it and managing its passage, the District Court refused to accept the ambiguous and general statements to which petitioners refer (Petition, pp. 22-23) as altering or enlarging, in any way, the intent or effect of the provisions of the Act. In so doing, the District Court was plainly right. See *Gemsco, Inc.* v. *Walling*, 324 U.S. 244, 260 (1945).

However, the District Court did not rest its dismissal of the antitrust defense solely on its conclusion that the statutory defense was unavailable to petitioners, but went on to consider whether there had been such a trademark

misuse in violation of the antitrust laws as would in equity deprive respondents of their remedy for infringement and unfair competition. On the basis of its careful consideration of the evidence offered by petitioners, the District Court properly found that no evidence of misuse of the trademarks had been offered. Petitioners had merely offered to prove that Carl Zeiss, Inc. had engaged in antitrust violations with respect to the distribution of products bearing the "Zeiss" mark, while admitting that they could offer no proof that the mark itself had been used as an instrument to violate the antitrust laws as in *Phi Delta Theta Fraternity* v. *J. A. Buchroeder & Co.*, 251 F.Supp. 968 (W.D.Mo. 1966), a case on which petitioners seek to rely (Petition, p. 23).

Accordingly, the Court of Appeals correctly concluded that the District Court "properly rejected this defense for the reasons set forth in its opinion. . ." (App. D, 4538) and no question is presented worthy of review by this Court.

IV

The refusals by the Courts below to permit concurrent use of the Zeiss marks does not merit review by this Court.

Petitioners' contention that the "balance of public and private interests" favors a joint use decree (Petition, p. 28) was thoroughly considered by both Courts below and found to be totally lacking in merit (App. D, 4534-4537; App. E, 141-142).

Petitioners' argument in favor of a decree permitting concurrent use by them of the Zeiss name and marks rests in part on their discredited contention that respondents were guilty of laches and acquiescence. This same contention was made repeatedly in the Courts below and found to be thoroughly unfounded (App. D, 4532-4534).

Moreover, as the Courts below properly pointed out, it is only where the products of the parties are not directly competitive and where the area and manner of concurrent use are different, circumstances not present here, that a decree permitting concurrent use may be warranted (App. D, 4535-4536). As the Court of Appeals properly noted, the District Court had found (with ample evidence in the record to support its findings) that continued use by petitioners of the Zeiss name and marks would be likely to result in continued confusion, mistake and deception on the part of members of the public and trade in the United States (App. D, 4536). The Court of Appeals agreed with the District Court that confusion could not be avoided by addition of the words "VEB" or "Jena" or by indicating that the products were manufactured in East Germany (App. D, 4537). It went on to note that there was nothing in the decree to prevent petitioners from using the word "Jena" in connection with their goods or to identify their goods as having been produced in Jena.

Petitioners' suggestion that as the result of the decree American purchasers may no longer buy Jena goods cannot be taken seriously. Petitioners have been free to sell their products in the United States in competition with those of respondents since the entry of the judgment and have, in fact, done so. As the Court of Appeals pointed out, the evidence showed that petitioners successfully sold their goods in the United States in competition with those of respondents for several years without using the Zeiss name or marks (App. D, 4537, n. 37).

In short, the decree enjoining petitioners from using the Zeiss name or marks is fully in accord with "long honored trademark principles" and does not merit review by this Court. Petitioners have failed to show that there was any abuse of judicial discretion in framing the decree, and certainly there is no reason for this Court to exercise its supervisory power.

Conclusion

The petition should be denied.

Respectfully submitted,

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May 1971

Supreme Court, U.S.
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No. 1583

IN THE

Supreme Court of the United States

OCTOBER TERM, 1970

VEB CARL ZEISS JENA, *et al.*,
Petitioners,

—v.—

CARL ZEISS STIFTUNG, *et ano,*
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO
THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

SUPPLEMENT TO BRIEF OF RESPONDENTS IN OPPOSITION TO PETITION

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May 1971

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UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

62 Civ 850

(Filed November 7, 1968)

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Plaintiffs,

—against—

V.E.B. CARL ZEISS, JENA; STEELMASTERS, INC.; ERCONA CORPORATION; EXAKTA CAMERA COMPANY, INC.; and CAMERA SPECIALTY COMPANY, INC.,

Defendants,

CARL ZEISS, INC.,

Additional Defendant on Counterclaims.

Findings of Fact

The following Findings of Fact made by the Court supplement those in its opinion of this date:

1. In 1846 a man named Carl Zeiss established a workshop for the manufacture of optical and mechanical instruments and related products in the City of Jena, in the Grand Duchy of Saxe-Weimar-Eisenach, Empire of Germany.

2. On April 16, 1863, the enterprise was registered in the Commercial Register for the City of Jena under the

firm name "Carl Zeiss", with Carl Zeiss as its owner. (The enterprise is hereinafter referred to as the "Zeiss firm" or the "Zeiss enterprise.")

3. Under Section 17 of the German Commercial Code a "firma" (firm) is the name under which a merchant (who can be either a natural person or a legal entity) carries on a business and may sue and be sued. It is also used to describe an enterprise with its own management, assets and financial books and records. It is not, however, a legal entity or personality capable of having a domicile or owning property or other rights; it is the proprietor of the enterprise who has the domicile and who owns the property.

4. In 1875 Ernst Abbe, a Professor at the University of Jena, who was vitally interested in the development of optical science, joined the Zeiss firm as a limited partner.

5. On October 11, 1879, Roderich Zeiss, the son of Carl Zeiss, became a partner in the Zeiss firm.

6. Carl Zeiss died in 1888 and his interest in the Zeiss firm passed to his son Roderich. On April 18, 1889, Professor Abbe became an active partner in the firm.

7. In May 1889 a written charter was prepared and signed by Professor Abbe creating a "Stiftung" (Foundation), to be known as the "Carl Zeiss Stiftung", and the charter was thereafter submitted to and approved by the Grand Duke of Saxe-Weimar-Eisenach.

8. Upon such approval, a legal entity or personality known as the Carl Zeiss Stiftung was created with its

domicile in the City of Jena. A "Stiftung," or Foundation, under German law, is a legal entity with power to own property, to sue and be sued, and to possess rights and have obligations like any natural person.

9. A private Stiftung, such as the Carl Zeiss Foundation, is established under German law by a declaration of intent (either in the form of an inter vivos instrument or a will), which must then be approved by the appropriate state authority.

10. On June 30, 1891, Roderich Zeiss and Professor Abbe withdrew from the Zeiss firm and all of the firm's assets were conveyed by Professor Abbe to the Carl Zeiss Stiftung.

11. Since 1891 the Foundation has continued to be the sole owner of all the assets of the Zeiss firm and through the firm to engage in the manufacture and sale of high grade precision optical instruments and related goods using the firm name and various trademarks, including trademarks consisting of the word "Zeiss", the words "Carl Zeiss Jena" in a distinctive lens frame, an empty distinctive lens frame, and the letters "C" and "Z" superimposed on one another.

12. In 1891 the Foundation also acquired a part interest in a second industrial enterprise, known as the firm "Jenaer Glaswerk Schott & Gen." (hereinafter called the "Schott firm"), a partnership engaged in the manufacture of optical glass founded in 1884 by Ernst Abbe, Carl and Roderich Zeiss and Dr. Otto Schott, a famous glass specialist.

Findings of Fact

13. Otto Schott retained an interest in the Schott works until 1919, when he conveyed that interest to the Foundation. Thus the Foundation acquired the remaining assets of the Schott firm in 1919, and since that time it has continued to be the sole owner of the assets of the Schott firm.

14. In the years between 1891 and 1945 the Carl Zeiss Foundation acquired interests in numerous other commercial enterprises, both in Germany and elsewhere.

15. In 1896 a new instrument designated a "Statut" (or Statute) was prepared by Professor Abbe, and was approved by the Grand Ducal Authorities of Saxe-Weimar-Eisenach on July 30 of that year, thus becoming effective as the charter or "Statute" of the Foundation.

16. Prior to 1900 there was no German federal law relating to foundations. The German federal Civil Code, however, which was promulgated on August 24, 1896 and became effective on January 1, 1900, contained a series of provisions on legal entities in general, including "stiftungen" or foundations.

17. Pursuant to Article 163 of the law introducing the Civil Code, Articles 85 through 88 of the Code (including various articles of the Code referred to therein) were made expressly applicable to existing foundations which had been created prior to 1900.

18. The Statute was amended by Professor Abbe shortly before his death on January 14, 1905, and as so amended was approved by the Grand Ducal authorities on December 5, 1905.

Findings of Fact

19. At this time Articles 85 through 88 of the Civil Code (as well as other Articles of the Code incorporated by reference) were applicable to the Carl Zeiss Foundation and the approval of the Statute as amended in 1905 was given subject to the provisions of those articles, in particular Article 87, permitting the appropriate government authority to change a foundation's purpose (by amendment of its statute if necessary) if the fulfillment of its original purpose had become impossible or endangered the common welfare.

20. The Grand Duchy of Saxe-Weimar-Eisenach ceased to exist in about 1920. It was united with other Thuringian principalities to form the new "Land" of Thuringia, a federal state of the German Reich.

21. The Statute was intended by Professor Abbe to serve as the charter for the Zeiss and Schott firms and to regulate the relationship of the two firms to the Foundation.

22. The purposes of the Carl Zeiss Foundation were described in Section 1 of the Statute as follows:

"A. Within the Works

"1. To cultivate the branches of precision technical industry, which have been introduced into Jena by the Optical Works and the Glass Works in cooperation with the founder of the Foundation by way of continued operation of said enterprises under impersonal ownership; in particular:

"2. Permanently to take care of the economic security of said enterprises, as well as to maintain and

develop them as industrial organizations, as a source of subsistence for a large number of people and as useful entities in the service of scientific and practical interests;

"3. To fulfil higher social obligations than individual owners could permanently guarantee, with respect to all of the employees of the enterprises in order to improve their situation in respect to their personal and economic rights.

"B. Outside the Works

"1. To promote the general interests of the branches of the precision technical industry as mentioned above within the proper sphere of activities of the Foundation enterprises as well as outside of it;

"2. To participate in organizations and measures designed for the public good of the working population in Jena and its immediate neighborhood;

"3. To promote study in natural and mathematical sciences with regard to research as well as teaching.

"The purposes of the Foundation as enumerated under A are to be carried out by the Foundation exclusively by means of the administration of its own industrial enterprises in accordance with this Statute and within the sphere of the activities of these enterprises. The purposes enumerated under B shall be carried out by the Foundation through the use of the surplus funds of the enterprises which are available to it after the purposes enumerated under A within the enterprises have been fulfilled."

Findings of Fact

It was Dr. Abbe's intention as founder to establish a private cooperative enterprise that would engage in commercial business for profit, which would be reinvested in the Foundation's commercial enterprises, with the remaining surplus, if any, to be used to assist the community (then Jena) where these enterprises were located. It was not his intention to create a charitable, eleemosenary, state-owned, or state-operated enterprise.

23. Section 3 of the Statute provided that the legal seat or domicile of the Foundation was to be in Jena. Section 121 directs that this provision "can, under no circumstances and in no manner, be legally amended or rendered inoperative."

24. Section 4 of the Statute provided for the creation of a so-called "Stiftungsverwaltung", or Special Board, with power to appoint the remaining organs of the Foundation and authority to supervise its affairs. The rights and obligations of this Special Board were entrusted by Section 5 to the agency of the local government which had general supervision over the affairs of the University of Jena. In addition to the Special Board the Statute provided for the creation of two organs which were entrusted with the duty of supervising the industrial activities of the Foundation: (1) a "Geschaeftsleitung", or Board of Management, to manage each of the Foundation's industrial enterprises (firms) and (2) a "Stiftungskommissar", or Foundation Deputy, to act as the representative of the Special Board on the Boards of Management of the firms.

The Statute also provided, among other things, as follows:

Findings of Fact

(a) Each of the industrial enterprises or firms of the Foundation, i.e., "the Optical Works (the firm of Carl Zeiss) and the Glass Works (the Firm of Schott & Genossen)" was permanently to carry on its activities under its own firm name, with its own separate assets, and under the administration and direction of its own individual Board of Management.

(b) The Board of Management of each of the firms was to consist of not more than four and not less than three members, one of whom was to be a "scientific specialist," and all of whom were to be appointed either for life or for a fixed period of time.

(c) Only an employee of one of the enterprises or firms of the Foundation having a lifetime contract of employment pursuant to Section 59 of the Statute was eligible for appointment to a Board of Management.

(d) An appointment to a Board of Management could not be made subject to revocation.

(e) Withdrawal from a Board of Management could be based only on

(1) a voluntary resignation accepted by the Special Board;

(2) the expiration of the fixed period of time for which the person had been appointed; or

(3) the termination or cancellation of the lifetime contract, which could only be effected for gross violation of duty, continued neglect of such duty, or conduct which resulted in lowering the general

esteem in which the person was held or loss of personal confidence.

(f) The members of the Boards of Management were to be appointed by the Special Board after consultation with the Deputy and the existing members of the respective Boards of Management.

(g) The Deputy was also to be appointed by the Special Board and was to exercise general supervisory powers over the conduct of the businesses by the Boards of Management of the individual firms.

(h) In conducting the affairs of the Foundation, the Special Board and the Deputy were to give due regard to the intentions of the founder, in accordance with the express provisions of the Statute and in accordance with their spirit. In so doing, they were to take into account interests of the State as distinguished from those of the Foundation only to the extent legally required of private citizens.

(i) In its capacity as proprietor of a firm the Foundation could be represented in its external affairs by an individual member of the firm's Board of Management appointed by the Special Board as "Mandatory" or "Deputy Mandatory" of the Foundation, or by two members of the firm's Board of Management acting jointly.

(j) If, at any time, a Special Board no longer existed, then until the new formation of such a body the functions of the Special Board were to be assumed by the Board of Management of the Zeiss firm.

(k) The following sections of the Statute could not be legally amended or rendered inoperative:

Section 1 (relating to the purposes of the Foundation);

Section 2 (relating to its name);

Section 3 (relating to the location of its legal domicile);

Section 4 (relating to its governing bodies); and

Sections 117 to 120 (relating to the manner in which the Statute could be amended).

25. The Statute also provided that the Foundation's business activity should have for its object, from an economical standpoint, not only the highest possible increase in net profits, but also an increase in the total economical result.

26. A majority of the sections of the Statute related directly to the management and activities of the two commercial enterprises, the Zeiss and Schott firms.

27. In June 1900 Professor Abbe prepared a set of Explanatory Notes relating to the Statute. The Explanatory Notes stated that they were intended by Professor Abbe to be annexed to the Statute and were prepared for the purpose of eliminating any possible uncertainty as to his intent with respect to the relation of the Foundation to the State and the Government authorities.

28. Under German law such explanatory notes are given great weight by German courts in interpreting the provisions of a foundation's statute.

Findings of Fact

29. In his Explanatory Notes, Professor Abbe made it clear that the Special Board, although a State agency, had its mandate from the founder and not from the State, and, therefore, regardless of its character as a Government authority, was to occupy, in connection with the affairs of the Carl Zeiss Foundation, the status of a private governing body.

30. In an earlier commentary on the draft of a new Statute written in 1891, Professor Abbe had made it clear that he did not want the enterprises of the Foundation to become "State enterprises."

31. Professor Abbe further stated, in his Explanatory Notes of 1900, that the Special Board has the following functions:

(a) representation of the Foundation in relation to third parties with respect to those matters which did not come within the sphere of activity of the business enterprises or firms;

(b) general administration of the Foundation's property distinct from the assets of the businesses;

(c) appointment of the Deputy;

(d) appointment of the members of the Boards of Management of the firms;

(e) disposal of the Foundation's profits for the purposes set forth in Section 1B of the Statute; and

(f) amendment of the Statute.

32. Professor Abbe expressly stated that the power of the Special Board to administer the property of the Founda-

tion, referred to in Section 4 of the Statute, was limited to that property which did not form part of the business assets, which were to be under the exclusive administration of the Boards of Management of the respective firms. The Boards of Management were, likewise, intended to manage the industrial activities and the business enterprises to the exclusion of the Special Board.

33. Professor Abbe further stated that pursuant to Sections 8 and 9 of the Statute any decisions in any way relating to the business activities of the firms or to their internal or external representation were within the sole competence of the Boards of Management, and neither the Deputy nor the Special Board had any power to act in these matters.

34. Professor Abbe explained that members of the Board of Management appointed for life could be removed only by a court judgment or arbitration award.

35. Professor Abbe also stated that each of the organs of the Foundation was independent of the other organs as regards the interpretation of the Statute, and that even the Special Board's interpretation was not to be binding on the Deputy or the Boards of Management.

36. With regard to the appointment of new members of the Boards of Management, Professor Abbe explained that the appointive power was exclusively that of the Special Board and that the Deputy could play only a consultative role similar to that played by existing Board members, except that the latter had veto power over the appointment of any new member whereas the Deputy had no such power.

Findings of Fact

37. After 1905 the Statute was again amended in 1931, 1935 and 1941. The 1935 amendments, however, were repealed after World War II.

38. On April 13, 1945 the United States Armed Forces occupied the City of Jena.

39. The functions of the Special Board of the Foundation were then being exercised by the office of the "Reichstatthalter" or Reichs Governor, of the Land of Thuringia, with headquarters in Weimar.

40. The post of the Foundation Deputy was occupied by Professor Abraham Esau, President of the German Government Bureau of Standards, located in Berlin.

41. The Board of Management of the Carl Zeiss firm consisted of the following persons, all of whom had been appointed to serve for life on the dates indicated:

Walter Bauersfeld	April 1, 1908
Paul Henrichs	September 30, 1926
Heinrich Kueppenbender	August 15, 1941
Georg Joos	April 1, 1943

Dr. Joos resigned as a member of the Board soon after his arrival in the American Zone in June 1945.

42. Professor Bauersfeld and Mr. Henrichs were, respectively, the "Mandatory" and "Deputy Mandatory," individually authorized to represent the Carl Zeiss Foundation externally in the affairs of the Zeiss firm.

43. The Board of Management of the Schott firm consisted of the following persons, all of whom had been appointed to serve for life on the dates indicated:

Erich Schott (the son of Otto Schott) ..... January 1, 1927
Richard Hirsch ..... April 1, 1919
Paul Henrichs 1934

(hereinafter referred to as the "Schott Board of Management").

44. The principal place of business of the firm Carl Zeiss was located in Jena and the firm had branch establishments in Berlin, Cologne, Hamburg and Vienna, and in a number of foreign countries.

45. In addition, the Zeiss firm had manufacturing facilities in Saalfeld and Gora, not far from Jena.

46. The Schott firm had its principal establishment in Jena and a branch factory in Landshut, in Bavaria, which was to be part of the American Zone of Occupation.

47. The Carl Zeiss Foundation owned the percentage interests specified below in each of the following corporations, all of which were located outside the territory allotted to the USSR as its zone of occupation:

Anschuetz & Co. GmbH	(100%)
M. Hensoldt & Soehne AG	(66%)
Zeiss Ikon AG	(70%)
Alfred Gauthier GmbH	(80-84%)
Friedrich Deckel	(30%)
R. Winkel GmbH	(100%)
Hans Kollmorgen GmbH	Not Specified
DESAG (Deutsche Spiegelglas A.G.)	(more than 50%)
Vereinigte Farbenglaswerke Zwiesel AG	(100%)
Sendlinger Optische Glaswerke Berlin AG	Not Specified
Bremthaler Quarzitwerke GmbH	Not Specified

Findings of Fact

48. The foundation also owned non-commercial assets which were used in connection with either one or both of the Foundation enterprises and managed by them. They consisted of: Volkshaus (People's House) at Jena, Optikerschule (School of Optics) at Jena, Ernst-Abbe-Buecherei (Ernst-Abbe-Library) at Jena, a children's hospital at Jena, a children's clinic at Bad Sulza, an Optical Museum at Jena, a Planetarium at Jena, Stadium sites at Jena, a Stutenhaus (vacation camp) in the Thuringian Forest, several agricultural estates, real property on the Island of Sylt (in the North Sea), and buildings in Berlin and Vienna. The Foundation also owned other real estate, in particular, residential houses in and around Jena and interests in the Carl Ziess Siedlungs GmbH and the Jenaer Gemeinnuetzige Wohnungsfuersorge A.G., both non-profit organizations holding title to housing property.

The value of the foregoing non-commercial assets was only a small fraction of the value of the commercial assets in the name of the Foundation's "firma" and its interests in commercial ventures outside of the Soviet Zone.

49. The total number of persons then employed in the various enterprises in which the Carl Zeiss Foundation had an interest, including the Zeiss and Schott firms, numbered 45,000, of whom approximately 30,000 were employed in locations outside Jena and its vicinity.

50. When the American troops first occupied the City of Jena there were employed at the Zeiss plant in Jena approximately 12,000 employees, of whom 7,000 were regular employees, 2,000 were foreign workers, and 3,000 were German laborers conscripted under German wartime labor legislation.

Findings of Fact

51. By June 1945 the 5,000 non-regular workers had left the Zeiss plant and in addition 500 of the regular workers had left the employ of the Zeiss firm.

52. The Allied Statement on Zones of Occupation issued on June 5, 1945 divided Germany into four zones. The Land of Thuringia, which included the city of Jena, was included in the zone alloted to the USSR.

53. At that time it was the established policy of the United States to search out leading German scientific experts located in territory under American control, evacuate them if necessary, and use them in connection with the continuing war effort against Japan.

54. Late in May or early in June of 1945 Dr. Kueppenbender was advised by the American military authorities that they required the Zeiss firm to establish a branch factory in the part of Germany which was to be the permanent American Zone of Occupation, where approximately 2,000 persons were to be employed, and instructed Dr. Kueppenbender to prepare a plan for the establishment of such a factory.

55. On June 13, 1945, the American military authorities notified Dr. Kueppenbender that because of lack of adequate transportation facilities the plan had been scrapped and that it had been decided instead to take only such key personnel, records and special equipment as could be loaded in fifty railroad cars. Dr. Kueppenbender was ordered to arrange for the packing of the equipment without delay.

56. On June 17, 1945, Dr. Kueppenbender called together the heads of the various departments and gave them instructions regarding the packing of the equipment.

Findings of Fact

57. On the night of June 18-19, 1945, the American military authorities notified the members of the Boards of Management of the Zeiss and Schott firms that they would shortly be removed from Jena together with a group of top scientific and technical personnel of the two firms pursuant to military orders issued by the Supreme Headquarters Allied Expeditionary Force (SHAEF) in Paris. The American military authorities made it clear to the members of the Boards of Management that since these were military orders they had no choice but to comply.

58. Under the terms of the unconditional surrender of Germany the German people were bound to carry out unconditionally all orders and instructions issued by representatives of the Supreme Commands of the United States and the other Allied Powers.

59. The American military authorities instructed the individual Board members to prepare lists for transportation to the American Zone of key personnel who would be included on a set of written orders to be prepared by the United States Army.

60. Such lists were prepared and submitted to SHAEF, where the written orders were to be prepared, but in view of the imminent arrival of Russian troops, the American military authorities decided to carry out the evacuation before such written orders were received in Jena.

61. In view of their imminent departure, the members of the Zeiss and Schott Boards of Management determined to designate certain of the remaining employees to exercise their functions in Jena during their absence. They intended to designate for the most part persons who would not be

removed by the Russians for political reasons, who would carry out the Board's wishes, and who would have the Board's confidence.

62. Three persons were selected by the Zeiss Board of Management, each of whom had been employed by the Zeiss firm for more than ten years. They were Dr. Friedrich Schomerus, Mr. Viktor Sandmann and Dr. Hugo Schrade (the "three S's"). Sandmann was at the time commercial director of the Zeiss firm and the only one of the three who was a "prokurist", i.e., a person having authority to sign on behalf of the firm and entered as such in the Commerical Register. Schrade was assistant to Kueppenbender and in charge of the planning division. Although these three had not been Nazi party members, a former Nazi, Fritz Dunger, was designated in a similar capacity to manage Schott during its Board's absence.

63. On June 21, 1945, Dr. Wilhelm Schacht, then one of the legal advisors to the Zeiss firm, was instructed by Mr. Henrichs to prepare an application to the County Court in Jena to have the names of Dr. Schrade and Dr. Schomerus also entered in the Commercial Register as prokurists of the Zeiss firm.

64. It was initially contemplated that the three S's should, as prokurists, perform the functions of the members of the Board of Management during the latter's temporary absence.

65. After further consultations among the Board members and with Dr. David of the Zeiss firm's legal department, however, it was decided, for internal purposes, to give to the three S's a formal power of attorney designating

them as representatives of the Board of Management authorized to act in their place for as long as the Board of Management was forced to be absent from Jena and prevented from exercising its management functions in Jena.

66. There is some evidence that the VIII United States Army Corps of the Ninth Army of the 12th Army Group made an attempt to set up a provincial government in Thuringia in June 1945. Thus, it appears that on June 9, 1945, a Colonel Hatch of the General Staff Corps purported to appoint a Mr. Hermann Brill as Prime Minister of Thuringia and that subsequently certain officers of the American military government in Weimar approved Mr. Brill's suggestions for appointment of a cabinet which included Mr. Walter Wolf as head of the Office of Education.

67. There is no evidence, however, that Colonel Hatch acted pursuant to any law, international agreement or directive giving the United States or the VIII Army Corps the authority to organize a new provincial government in Thuringia.

68. Under the Agreements among the Allied Powers of June 5, 1945, Thuringia had already been allotted to the USSR for occupation. The Agreements provided for the exercise of governmental authority by each Commander-in-Chief only "in his own zone of occupation."

69. On June 21, 1945, a document had been executed by Walter Wolf, claiming to be the Head of the Thuringian Office of Education and to be acting as the Special Board of the Foundation, in which he had purported to revoke the appointment of Professor Esau as Foundation Deputy and to name a Dr. Arno Barth in his place. A letter by

Mr. Wolf addressed to the Board of Management of the Zeiss firm and containing word of the appointment apparently came to the attention of Mr. Henrichs on June 22, 1945, but there is no evidence that it was ever seen by any other member of the Zeiss Board.

70. On June 22, 1945, Mr. Henrichs, acting on behalf of the Zeiss Board of Management, executed such a written power of attorney, prepared by Dr. Schacht and Dr. Walter David, legal advisers to the Zeiss firm, which provided that Messrs. Schrade, Sandmann and Schomerus were instructed to assume temporarily the duties and functions of the Board of Management for as long as the members of the Board were forced to be absent from Jena and, therefore, prevented from performing their duties.

71. Pursuant to Section 8 of the Foundation Statute, the members of the Board of Management had the power to designate authorized representatives to manage the firm's affairs as well as to represent it with respect to third parties.

72. There is no evidence that at any time prior to their departure from Jena the Zeiss Board of Management revoked or cancelled the power of attorney.

73. On June 23, 1945, Dr. Arno Barth appeared in Jena claiming to be the new Foundation Deputy. A meeting was held on that day at the Schott plant at which were present Dr. Schott, Mr. Henrichs, Dr. Barth, Mr. Hirsch and two members of the Workers' Council of the Schott firm, one of whom was Mr. Eduard Heintz. At that meeting the identity of the persons who were to take over the duties and

functions of the Board of Management of the Schott firm was discussed.

74. At no time during the meeting with Dr. Barth did Dr. Schott or Mr. Henrichs or Mr. Hirsch tender their resignations as members of the Board of Management of the Schott firm nor was the subject of resignation even discussed. Dr. Kueppenbender participated during the last part of the meeting, at which no discussion took place concerning the question of the management of the Zeiss or Schott firms.

75. At no other time prior to the departure of the Zeiss and Schott Boards of Management did any members of either Board tender his resignation to anyone, nor was the subject discussed.

76. The departure of the Zeiss Board of Management and the other Zeiss employees took place on June 24, 1945. Included among the group were 77 leading scientific experts.

77. The Schott Board of Management and the other evacuated Schott employees left Jena on June 25, 1945. Included among the group were 55 key scientific personnel.

78. The Zeiss and Schott personnel evacuated by the American military authorities from Jena on June 24 and 25, 1945 were transported to Heidenheim an der Brenz in Wuerttemberg, in the American Zone of Occupation.

79. The evacuation of the Zeiss and Schott groups was carried out pursuant to directives from the United States Joint Chiefs of Staff in Washington and General Eisen-

hower as Supreme Commander of the Allied Forces in Europe and were based on military necessity.

80. Prior to their departure from Jena, Messrs. Kueppenbender and Henrichs instructed Dr. David to go to Wetzlar, near Frankfurt in the American Zone, to look after the Foundation's interests in its subsidiary, Hensoldt & Soehne, and its other affiliated corporations outside the Soviet Zone.

81. Dr. David left Jena on June 26, 1945, and remained at Wetzlar until May 1946, when he joined the Zeiss management at Heidenheim.

82. On June 27, 1945, Dr. Barth, acting as Foundation Deputy, signed documents purporting to appoint Messrs. Schomerus, Sandmann and Schrade members of the Zeiss Board and Messrs. Dunger, Heintz and Klemm members of the Schott Board, which were signed by the purported appointees. Barth also signed a letter addressed to the Office of the Commercial Register in the County Court of Jena applying for registration of entries cancelling the appointment of Bauersfeld as Mandatory and Henrichs as Deputy Mandatory for the firm Carl Zeiss and appointing Schomerus and Sandmann, respectively, to fill the vacancies. Another letter purportedly signed by Barth and addressed to the Jena County Court requested registration of entries cancelling the prokura of Kueppenbender and Joos for the firm Carl Zeiss and noting the authority of Schrade to sign as prokurist for Zeiss.

Thus the departing Zeiss Board of Management did not resign but arranged with three trusted employees to exercise their functions during the Board's absence on the

understanding that upon the Board's return it would assume exercise of its management functions in Jena. In implementation of this arrangement, which was made necessary by the American military evacuation order and the impending arrival of the Soviet military forces, the Board executed the necessary papers to enable the three S's to function during the Board's absence. However, apparently because of fear that the Russians would not honor such delegation of authority because it came from Board members with prior Nazi connections, the caretaker management arranged with Barth for the foregoing appointments of themselves by him as the representative of an *ad hoc* government untainted by prior Nazi party connection. As a result the powers of appointment executed by the departing Board members were never used, and in lieu of them Barth and the three S's substituted the foregoing appointments, which were more likely to be acceptable to the incoming Russians and did not reveal the actual arrangements made with the Board being evacuated to Heidenheim. Thus the three S's although only a caretaker group, sought to create the false impression with the Russians that they were independently appointed and did not depend for their authority upon any persons tainted with previous Nazi connections. However, while some of the departing Board members were aware of Barth's purported status and assumption of authority to act as Deputy, they neither resigned nor participated in the substitution of the Barth appointments in lieu of the powers and prokura previously executed by them.

83. The first public announcement of the formation of a new Thuringian Government was made on July 16, 1945, more than two weeks after the United States Armed Forces

had withdrawn from that area. The notice, signed by Mr. Brill as the purported Prime Minister, recited the formation of a Government for the "Province" of Thuringia; it was dated July 2, the day following the departure of the United States Armed Forces, when the USSR was already in control of Thuringia.

84. On July 16, 1945, the Soviet Military Administration ("SMA") announced the formation of a new government for the "Land" of Thuringia with a Mr. Rudolph Paul as its president. The order of the SMA made no reference to any existing provincial government or administration.

85. On September 1, 1945, a notice was issued over the signature of Dr. Paul reciting the formation of a new administration for the "Land" of Thuringia. The notice described the geographic boundaries of the "Land" and named the persons who had been appointed to head the various ministries with the approval of the SMA. According to the description in the notice, the territory which was to comprise the "Land" of Thuringia was different from the territory described as comprising the "Province" of Thuringia in the notice issued on July 2, 1945 by Dr. Brill.

86. The notice of September 1, 1945 recited that, with the approval of the SMA, Walter Wolf had been appointed to head the Land Office for Education. The notice recited that Dr. Paul had been authorized to make appointments of directors of "the Land offices to be established for creating the administration of the Land of Thuringia" and made no reference to any existing provincial government.

87. Thus there was in existence during June 1945 in Thuringia a provincial *ad hoc* government of doubtful

legality which appointed an agency or department purporting to correspond to the description of the Special Board contained in either §5 or §113 of the Foundation Statute; and the latter in turn purported on June 21, 1945 to appoint Dr. Barth as Foundation Deputy.

88. The Foundation Statute provided that only the Special Board could make appointments to the Board of Management of the Zeiss firm with the Deputy playing only a consultative role. Moreover, the Statute expressly provided that such appointments could not be made subject to revocation.

89. Since the agreements purporting to appoint Messrs. Schrade, Sandmann and Schomerus members of the Board of Management of the Zeiss firm were not made by the Special Board and stated that they were subject to revocation by the Special Board upon the return of the departing members of the Board of Management, they did not comply with the provisions of the Foundation Statute.

90. The Statute also provided that no one could be appointed a member of the Board of Management of the Zeiss firm unless he had a lifetime employment contract with the firm.

91. As of June 27, 1945, neither Dr. Schrade nor Dr. Schomerus had a lifetime employment contract with the Zeiss firm. Both men entered into such purported contracts for the first time on November 20, 1945.

92. There is no evidence that Mr. Sandmann had a lifetime employment contract with the Zeiss firm on June 27.

Findings of Fact

93. After the purported agreements were signed, Dr. Barth summoned Dr. Wilhelm Schacht, handed him the executed documents, and instructed him to prepare and file a written application to the County Court of Jena requesting entry in the Commercial Register of the names of the three purported appointees as persons authorized to sign on behalf of the Zeiss firm and requesting the cancellation of the authorizations of the evacuated members of the Board of Management. Upon receiving these instructions, Dr. Schacht took the power of attorney of June 22, 1945, signed by Mr. Henrichs and wrote the word "gegenstandslos", or "superseded", on it.

94. On June 29, 1945, Dr. Schomerus wrote to Mr. Henrichs advising him that the appointment of a new Board of Management had been effected and executed by a notary public for registration in the Commercial Register. Dr. Schomerus made no mention of the fact that an application had been filed to have the names of the evacuated Board members cancelled in the Commercial Register.

95. On or about July 1, 1945, the Armed Forces of the United States relinquished control of the City of Jena and the Province of Thuringia to the Armed Forces of the Soviet Union.

96. On July 2, 1945, general notices were drafted and exhibited soon thereafter in the Zeiss works in which the Jena management informed the employees that the "hitherto functioning" Board of Management had been forced to leave Jena and that Messrs. Schrade, Sandmann and Schomerus had been appointed members of the Board of Management. No reference was made to any resignation. Although the notice stated that Professor Esau had been

replaced as the Foundation Deputy by Dr. Barth, the notice did not state that the departing Zeiss Board of Management had been "replaced."

97. Although the aforementioned application to the County Court was executed and filed on June 27, 1945, the requested entries and cancellations in the Commercial Register maintained at the County Court in Jena were not made until October 18, 1945. Neither the application nor the entries contained any reference to any resignation of the evacuated members of the Zeiss Board of Management.

98. The cancellation of the names of the members of the Zeiss Board of Management from the Commercial Register in Jena had the effect, under German law, of resulting in cancellations in similar Commercial Registers maintained in Hamburg, Cologne and Berlin, outside the Soviet Zone, where the Zeiss firm had branches, thus depriving Messrs. Bauersfeld, Henrichs, Kueppenbender and Joos of proof of their authority to sign on behalf of the Zeiss firm.

99. In the application filed June 27, 1945, Dr. Barth requested the County Court in Jena to enter the names of Dr. Schomerus as Mandatory and Mr. Sandmann as Deputy Mandatory. Under Section 9 of the Foundation Statute only the Special Board had the power to appoint Mandatories and their Deputies and Dr. Barth, even if properly appointed as Deputy, had no authority to make such a request. There is no proof that either Dr. Schomerus or Mr. Sandmann was ever appointed to serve in those capacities by the Special Board either orally or in writing.

100. Following the departure of the Zeiss Board of Management from Jena in June 1945 the Jena management

was advised on several occasions beginning in August 1945 that the departing Board members claimed that they were still in office and were only temporarily prevented from exercising their functions with respect to the management of the Zeiss firm in Jena and the Soviet Zone, but were continuing to function with respect to the firm's affairs outside the Soviet Zone.

101. From June 1945 until at least January 1946 the individual members of the Zeiss Board of Management in Heidenheim were addressed as "[redacted] Board of Management" in letters sent to them and signed by one or more of the members of the Jena management.

102. After the evacuation the Heidenheim management learned of the purported appointment by Barth of a new Board of Management and that the Jena management purported to act as members of the Board of Management in issuing certain powers of attorney, but the Heidenheim management had no personal contact with any representative of the Jena management until some time in early October, when a meeting took place in Heidenheim between Messsrs. Henrichs, Hirsch and Schott and representatives of the Jena management. At that meeting it became clear that there was a difference of opinion between the Jena management and the Heidenheim management over their respective legal positions.

103. On October 12, 1945, Messrs. Henrichs, Hirsch and Schott addressed a letter to the Schott management in Jena (including Dr. Schrade) in which, *inter alia*, the following statements were made:

(a) As a result of the Heidenheim meeting with representatives from the East, the writers had learned

of the "very different views" held by the representatives of Jena as to their respective positions.

(b) The writers made clear their view that they could and should develop the existing manufacturing facilities of the Schott firm outside the Soviet Zone into a second and independent manufacturing center.

(c) Because of the "hermetic sealing" of the interzonal frontier, the interests of the Foundation had to be looked after by different persons in the Soviet and in the non-Soviet occupied parts of Germany.

(d) Therefore, a second Board of Management, which alone was to be competent to manage the affairs of the Schott firm in the Soviet Zone, had been appointed for the purpose of conducting affairs in Jena during the writers' disability.

(e) By reason of their lifetime appointments the writers claimed the right and duty to look after the interests of the Foundation and the Schott firm outside the Soviet Zone.

(f) The writers declared this to be only a temporary measure rendered necessary by the division of Germany, which was to cease the moment it again became possible to engage in free economic activities throughout the whole of Germany and the writers could return to Jena. Until such time, the writers stated that they had no choice but to acquiesce in the situation created by the occupation forces and, therefore, each group would have to look after the interests of the Foundation within the territories accessible to it.

The writers also expressed their desire that mutual confidence be restored on both sides and that there be an end to "mutual antagonistic acts between the Managements responsible for the two territories, signs of which [they] had unfortunately already observed."

104. Immediately following the receipt of the letter, Dr. Barth took certain steps in an attempt to give Messrs. Schrade, Schomerus and Sandmann formal legal basis for claiming that they alone constituted the Zeiss Board of Management in accordance with the Foundation Statute.

105. On October 18, 1945, three and one-half months after the aforementioned agreements had been made on June 27, 1945 by Barth purporting to replace the Board members in Heidenheim with his appointees, the entries in the Commercial Register in Jena reflecting the change were made.

106. On October 30, 1945, the Soviet Military Administration issued Order No. 124, providing for the sequestration of certain types of property in the Soviet-occupied territory. By Order No. 156 of the Soviet military authorities in Thuringia, dated December 31, 1945, the Zeiss Works were specifically sequestrated, and notice thereof was given to the Zeiss Works, attention of Schrade.

107. On November 9, 1945, Dr. Barth addressed a letter to the Ministry of Education in Weimar as "Special Board of the Carl Zeiss Stiftung" requesting it to approve in writing the purported agreements of June 27, 1945, which he had concluded with Messrs. Schrade, Schomerus and Sandmann and pursuant to which they were purportedly to

serve as members of the Zeiss Board of Management for a two-year period subject to revocation by the Special Board if the deported members of the Board were to return to Jena.

108. Dr. Barth gave as the reason for his request the fact that the deported Zeiss and Schott Boards of Management in Heidenheim were claiming that they were the Boards of Management and that the Jena managements were only their representatives. Dr. Barth pointed out that relations between the Heidenheim and Jena gentlemen had gradually become more strained and quoted the portion of the letter of Octoger 12, 1945, in which the writers asserted that they were entitled to look after the affairs of the firm and the Foundation outside the Soviet Zone by reason of their lifetime appointments and that the second management in Jena was competent only in the Soviet Zone.

109. Dr. Barth suggested that it might be possible to remove the deported members of the Boards of Management on the grounds of their membership in the Nazi Party during the war as soon as it became clear that they were covered by new laws in the Soviet Occupation Zone regarding measures to be taken against persons with prior Nazi affiliations. No claim was made that they had resigned prior to leaving Jena.

110. On November 16, 1945, apparently in response to the request contained in Dr. Barth's letter of November 9, 1945, a letter was addressed to him by Dr. Walter Wolf, as the "Special Board of the Carl Zeiss Stiftung," in which Dr. Wolf stated that in order to prevent doubts and

misunderstandings the agreements signed on June 27, 1945, by Dr. Barth and Messrs. Schrade, Schomerus and Sandmann were being approved retroactively.

111. On November 20, 1945, lifetime employment contracts were executed between the Zeiss firm and Dr. Schrade and Dr. Schomerus. Each of the agreements recited that they were being entered into effective June 27, 1945.

112. The execution of these lifetime contracts of employment was a belated attempt to comply with the provisions of Section 26 of the Foundation Statute which required as a condition of membership in a Board of Management that the appointee be employed in the firm on the basis of an employment contract for life or a fixed period in conformity with §59 of the Statute.

113. The foregoing measures did not validate the appointment of Barth's nominees as Board members since they still failed to comply with the Foundation Statute in material respects and the existing Board had not resigned or consented, and there were no vacancies to be filled.

114. On December 27, 1945, Dr Barth again addressed a letter to the Ministry of Public Education in Weimar as the "Special Board of the Carl Zeiss Stiftung" in which he referred to his letter of November 9, 1945, and repeated that the deported Boards of Management were "again and again" claiming that they were still in office. He declared that the "new Boards of Management in Jena" did not wish to take drastic steps because of their past cooperation with the deported Management, but that this could not have any importance for him or the Special Board.

In his letter Dr. Barth requested that the Special Board sign an application prepared by him for submission to the President of Thuringia calling for the removal of the deported members of the Board of Management from their offices. This was inconsistent with any claim that they had resigned before leaving Jena, and no such claim was made by Dr. Barth at that time.

115. In attempting to secure the dismissal of the Heidenheim management, Dr. Barth acted entirely on his own and did not advise any of the members of the Jena management of what he was doing until January 9, 1946.

116. On December 28 and 29, 1945, Mr. Sandmann met with Mr. Henrichs in Heidelberg, in the American Zone of Occupied Germany, to discuss the dispute which had arisen respecting the management of the Zeiss firm, and told Mr. Henrichs that the Jena management considered that the Heidenheim management was "suspended" because of its inability to act in Jena. This was inconsistent with the present claim that they had resigned before leaving Jena, and Mr. Sandmann did not state that any such claim was being made.

117. Mr. Henrichs responded that the Heidenheim management, on the strength of a legal opinion, still considered itself in office on the basis of the lifetime appointments of its members and the absence of any grounds for dismissal. Mr. Henrichs stated that the American military authorities also considered the Heidenheim management as still in office. However, Sandmann told Henrichs that it was his view and that of his Jena colleagues that the Stiftung's interest could "only be represented exclusively

by the present Board of Management in Jena", that instructions must issue only from Jena and that all business transactions affecting the Stiftung must be effected only with Jena's consent. Henrichs promised to urge the gentlemen in the West to accept the Jena view and to acknowledge that they did so, and he asked, if that were done, that the power of attorney previously granted by Schomerus to Kuehn and Schreiber (to act for the Stiftung and the Firma Carl Zeiss in the West) be withdrawn and such a power be issued instead to the former members of the Zeiss Board.

118. At the December 28-29, 1945 meeting Mr. Sandmann informed Mr. Henrichs that Jena did not wish to see the establishment of a plant under the Zeiss firm name in the Western Zone for fear that the future of the plant in Jena would be seriously endangered by such a move. He told Mr. Henrichs that the Jena management still hoped to avoid the risk of dismantling of the plant by the Russians, which would be increased by the appearance of a new Zeiss production center in the West.

119. There is no evidence that at the Heidelberg meeting Mr. Henrichs was advised concerning any of the measures which had already been taken by Dr. Barth since the departure of the Zeiss Board of Management from Jena.

120. Mr. Henrichs did not inform Dr. David, who was residing in Wetzlar at that time, of the meeting with Mr. Sandmann or of the discussion concerning powers of attorney before Dr. David visited Jena in February 1946.

121. On December 31, 1945, the Zeiss Works were sequestrated by Order No. 156 of the Soviet military au-

thorities in Thuringia, pursuant to SMA Order No. 124 of October 30, 1945, and notice thereof was given to the Zeiss Works, attention of Schrade who was appointed sequestrator.

122. On January 9, 1946, Barth informed the Jena management of his plan to secure the official dismissal of the Heidenheim management on charges of Naziism. The Jena management agreed that, in view of the sequestration, the Heidenheim management had to be effectively removed from office, but they persuaded Barth that before such drastic action as dismissal on charges of Naziism was taken, the Heidenheim management should be given an opportunity to recognize the authority of the Jena management and to accept powers of attorney from it, as suggested at the Heidelberg meeting.

123. On January 12, 1946, the Jena management for the Zeiss and Schott firms sent a letter addressed to the "former members of the Boards of Management of the firms Carl Zeiss and Schott", attention of Mr. Henrichs, sometimes referred to as the "blackmail letter". The letter was dictated by Dr. Schomerus in Dr. Barth's presence and contained an enclosure prepared by Dr. Barth.

124. In it the writers declared that they considered it necessary to establish their legal competence as the sole Boards of Management before they could agree to any measures concerning the handling of the Foundation's affairs and those of its firms in the American, French and British zones of occupation. The letter continued:

> "It is our position that, since we were appointed as Board of Management by the Special Board on your

proposal, we are the only responsible Board of Management and you have thereby resigned. By the same token we have promised to resign at the request of the Special Board in your favor, if you should return to Jena and be able to resume your former office. You have so far taken a contrary position and speak of a Second Board of Management which is competent for the American, French, and British occupied zones. We are not able to agree with this view because of legal reasons and the necessity to have the uniform management. In addition to the fact that only the Mandatories of the Carl Zeiss Stiftung and the members of the Board of Management of the Stiftung establishments acting in Jena can be authorized to perform legally binding acts for the Stiftung and the Stiftung establishments, it is necessary, with regard to the outside world to create absolute clarity as to the competent authorities. The Zeiss Works have their domicile in Jena and there can be only one Board of Management acting here. Only if this has been made absolutely clear, both internally and externally can the certainty, required for all business transactions be established and the development and existence of the Stiftung guaranteed to the extent that this is possible within German power."

125. The letter further stated that the Special Board had prepared an official dismissal of the Boards of Management in Heidenheim on the basis of their prior membership in the Nazi Party and that Dr. Barth had informed the Jena managements about the planned dismissal on January 9.

126. The letter recited that a copy of the official application for dismissal was being enclosed but that its submis-

sion was being held up. The writers suggested that to avoid having the dismissal carried out the members of the Boards of Management in Heidenheim should voluntarily give up their appointments as Board members.

127. The letter also stated that if the Heidenheim management complied with the request their financial claims would be preserved and arrangements for the handling of the business of the Foundation enterprises in the Western Zone would be made in accordance with the wishes of the Heidenheim management.

128. Enclosed with the letter was a letter addressed to the President of Thuringia by the "Special Board of the Carl Zeiss Stiftung" and the Foundation Deputy requesting the dismissal of Messrs. Henrichs, Bauersfeld and Schott from their positions as members of the Boards of Management of the Zeiss and Schott firms on the grounds of their prior Nazi Party membership. The letter described each of the three gentlemen as "heretofore" members of the Board of Management of their respective firms, and stated that they were all lifetime officials of the Foundation enterprises and that their positions as members of the Boards of Management had thus far "not been taken from them." It also declared that these gentlemen looked upon themselves as the only authorized Board members.

129. The members of the Zeiss Board of Management had not resigned prior to their departure from Jena but had continued to regard themselves as still in office although prevented from exercising their functions by reason of their forced absence from Jena. Dr. Barth believed that the claim of the deported Board members had validity, and it was for this reason that he was threatening to dismiss

them in an effort to establish the legitimacy of the Jena management.

130. On January 12, 1946, the same date as that of the blackmail letter, Mr. Sandmann addressed a personal letter to Mr. Henrichs in which he addressed Mr. Henrichs as a "member of the Board of Management". He stated that under Order 124 of the SMA (pursuant to which the Zeiss works had been sequestered) the persons in Jena were personally responsible to the Soviet military authorities for all of the assets of the Foundation and the Foundation enterprises and that, therefore, if powers of attorney were granted to the Zeiss Board of Management in Heidenheim it would have to be clear that as far as possible all measures taken outside the Soviet Zone had the concurrence of the Jena management.

131. In his letter Mr. Sandmann also stated that it was painful to him and the other members of the Jena management to make the threat contained in the blackmail letter but declared that this was the only solution which could make a practical cooperation between the two sides possible. He closed the letter with the statement that whatever the legal consequences "nothing will change the basic attitude of the gentlemen here with regard to the agreements of June, 1945."

132. It is inferred from the reference to Order 124, that so far as Messrs. Schrade, Sandmann and Schomerus were concerned the request for recognition as the solely competent Board of Management for the Zeiss firm was based on a desire to demonstrate to the Russians that they were in a position to administer the assets of the Foundation enterprises in their own right and not as deputies or representa-

tives of the deported members of the Board of Management.

133. This conclusion is supported by Dr. David's testimony that at a meeting in Jena in February 1946 Mr. Sandmann declared that the sequestration imposed on the Jena management certain responsibilities towards the Russian occupying power but that, as regards the legal position of the Heidenheim management, the Jena management would stand by its word that the Heidenheim management could resume its functions in Jena as soon as circumstances would permit.

134. Similar statements were made to Dr. Schacht at approximately the same time by Mr. Sandmann as well as Dr. Schomerus.

135. Reference to "our obligation and responsibility towards the Occupation Authorities" is also made in the letter of March 4, 1946, addressed to the Heidenheim management by the Jena management.

136. The receipt of the blackmail letter in Heidenheim caused great concern to Messrs. Henrichs and Bauersfeld. Dr. Kueppenbender was, at that time, in an interrogation camp and did not learn of the receipt of the letter until March 1946. Henrichs, Bauersfeld and Hirsch, together with David (then acting as the legal advisor of the Heidenheim and Western Schott gentlemen), discussed the matter fully and Henrichs prepared a reply. This was the letter of January 28, 1946. David was not pleased with the letter; it weakened an earlier draft he had prepared and, in his opinion, failed clearly to state that the Heidenheim and Western Schott gentlemen had not resigned and were not

resigning. Henrichs, however, rejected David's objections, insisting that his colleagues had approved the letter and that it must be sent as it was. The letter opens with a statement of full agreement "that for legal and practical reasons there can be only one solely responsible Board of Management with its seat in Jena", and proceeds at once to negate any "dualism". The letter reads, in part, as follows:

> "We fully agree with you that for legal and practical reasons there can be only one solely responsible board of management with its seat in Jena. The difficult situation created by the events of the last summer could only become worse to the further detriment of the Stiftung, if any kind of dualism would legally and by reason of distance split up the supreme power of management exercised by the boards of management of both Stiftung establishments. In order to make possible your appointment as regular members of the Board of Management according to the Statute, we proposed you as our successors to the Deputy at the end of June last year and we handed over the business to you.
>
> "We wish to confirm clearly and free of any dou' t that since our removal from Jena we have regarded you as the sole and completely responsible Board of Management of the Stiftung Establishments internally and externally and that we will continue to do so. The undersigned Henrichs and Hirsch regret that they have apparently caused the erroneous idea in you by using in their letter of October 12, 1945 the ambiguous term, 'Second Board of Management', as if they still assigned to themselves the official title and legal position of members of the Board of Management of the Glass Works Schott & Gen. This was by no means intended. . . ."

"Since we fully agree with you in your judgment of the legal situation", the letter continues, "we think you will agree with us that the recommended resignation has become meaningless. The situation sought by this recommendation is already in existence in your favor." The writers then state that "[s]ince we no longer have any function as members of the Board of Management, . . . such function cannot be taken from us by a political proceeding of exclusion. . . ."

137. On January 28, 1946, Messrs. Henrichs, Bauersfeld and Hirsch addressed a letter to the "members of the Boards of Management of Zeiss and Schott" in Jena. The letter was prepared by Mr. Henrichs.

138. In the letter the writers expressed their disappointment and pain as a result of receipt of the blackmail letter. The writers stated that they agreed that there could only be one Board of Management with its seat in Jena and stated that they had regarded the Jena managements as the "sole and completely responsible Board of Managements" of the Foundation enterprises and would continue to do so.

139. The writers expressed their regret that they had used the ambiguous term "second Board of Management" in their letter of October 12, 1945, and stated that they had not intended to give the impression that they still assigned to themselves the official title and legal position of members of the Board of Management.

140. The writers went on to say that in view of the status quo a resignation by them would be pointless.

They declared that since they no longer exercised any functions as members of the Board of Management these functions could not be taken away from them by means of a dismissal. They thanked the Jena management for assisting them in their denazification process and asked them to protect them in the Soviet Zone so long as they were prevented from defending themselves there.

141. The letter of January 28, 1946 also explicitly refers to the understanding reached by Sandmann and Henrichs in their Heidelberg conference in December 1945, that the power of attorney previously granted to Kuehn and Schreiber would now be cancelled and new powers would be issued by the Zeiss and Schott Boards in Jena to the Heidenheim and Western Schott gentlemen as soon as the latter regained their "freedom to act" (a reference undoubtedly to denazification proceedings). Hope is expressed that the Jena Zeiss and Schott gentlemen would aid their former colleagues in such proceedings and the letter closes with the following paragraphs:

> "We have requested Dr. Schott to come here for a discussion of the preceding questions. However, he has not arrived until now. At present, there is no possibility of communication with Dr. Kuppenbender and Professor Joos. We are certain, however, that the gentlemen absent at present will fully agree with the opinion expressed by the undersigned persons.
>
> "The enclosed copy is meant for the Deputy Dr. Barth, President of the Court of Appeals. We would be very grateful if you would express our sincerest thanks to the Deputy for his understanding handling of the preceding problem and for his energetic further-

ance of the affairs of the Stiftung. . . . We would like to express our thanks to you in the same sense."

142. The January 28, 1946 letter was not signed by Dr. Kueppenbender or seen by him until the spring of 1946.

143. In acknowledging the Jena management as the sole responsible Board of Management the writers were motivated by the threat of dismissal contained in the blackmail letter of January 12, 1946. They also needed evidence within the control of the Jena management in the forthcoming denazification proceedings of the Zeiss Board of Management in Heidenheim. Nevertheless, the Heidenheim management was not coerced by the blackmail letter into resigning. They intended that the January 28 letter would constitute sufficient compliance with the demands of the blackmail letter of January 12 to enable the Jena management to issue the powers of attorney which had been discussed at the Heidelberg conference between Henrichs and Sandmann in late December, 1945. The issuance of these powers would benefit the Heidenheim group by enabling it to resume management of Foundation interests in the Western Zones while benefiting the Jena management by supporting its claim of authority.

144. The letter was not dispatched to Jena by mail but was personally handed by Dr. David to Dr. Schomerus at a a meeting at the Zeiss plant in Jena on February 11, 1946, at which there were also present Messrs. Schrade, Sandmann, Dunger, Heintz and Klemm.

145. After delivering the letter Dr. David stated to the persons in attendance that the Heidenheim managements, having been appointed members of the Boards of Manage-

ment of Zeiss and Schott for life, regarded the blackmail letter as a stain on the escutcheon of the Zeiss Foundation and refused to tender their resignations, but were nevertheless prepared to refrain from exercising their functions so long as the Jena management was in a position to do so and the Heidenheim managements were not, and they would not object to the gentlemen in Jena describing themselves as the Boards of Management since, in actual fact (*"de facto"*), they were exercising the Board functions.

146. Under German law as it then existed, a resignation, to be effective, must be clear, unequivocal, and unambiguous. An agreement to refrain from exercise of one's powers did not constitute a resignation.

147. Dr. David also informed those present that the Boards of Management in Heidenheim had received a legal opinion with respect to their position as members of the Board of Management from an attorney in Munich and suggested that a meeting take place between the Heidenheim and Jena managements in Wetzlar.

148. It is inferred that Dr. David's reference was to the same legal opinion about which Mr. Henrichs had informed Mr. Sandmann at Heidelberg on December 28-29, 1945, and on the basis of which the Heidenheim management still considered themselves as the members of the Zeiss Board of Management.

149. Schomerus replied that since the January 12, 1946 letter had been written at Barth's request, the matter of a reply to the January 28, 1946 letter would have to await consultation with Barth. Several days later Schomerus (with Sandmann standing by; neither Shrade nor the other

Jena gentlemen were present) reported to David that he had discussed the matter with his colleagues and with Barth; that they "shared the view" of the Heidenheim and Western Schott gentlemen that "at the time the interests of the firm of Carl Zeiss, both in West and East Germany, were in peril"; and that the Jena Zeiss and Schott gentlemen "would stand by their word that these [the Heidenheim and Western Schott] gentlemen could return to their desks as soon as circumstances would permit. However, no one was able to tell whether this would ever come to pass."

150. At a meeting held shortly thereafter in Jena on February 13, 1946, at which Dr. Barth and the Jena managements (but not Dr. David) were present, Dr. Barth stated, when asked by one of the members of the Jena managements about "the legal position of the old Board of Management in Heidenheim", that the Heidenheim management was to be considered as "suspended", the same term that had been used by Sandmann at his meeting with Mr. Henrichs in Heidelberg on December 28 and 29, 1945.

151. Under German law, as well as under the Foundation Statute, "suspension" is a state of contractual relationship in which the rights and duties flowing from a contract are dormant and may temporarily not be exercised, but the contract remains in effect.

152. Thus an understanding was reached that the Boards in Heidenheim would not resign but that they would, until their return to Jena, suspend, or refrain from, exercise of their functions as Board members and allow the Jena designees to hold themselves out as the Boards in order to appease the Soviet occupation authorities.

Findings of Fact

153. At the end of his visit to Jena in February 1946, Dr. David discovered that in October 1945 the names of the members of the Zeiss Board of Management in Heidenheim had been cancelled from the Commercial Register for the Zeiss firm maintained at the County Court in Jena. Under German law this deprived the Heidenheim management of proof of its authority to act for the Zeiss firm.

154. On February 18, 1946, Dr. Erich Schott, then resident in Heidenheim, addressed a letter "to the members of the firms Jenaer Glaswerk Schott & Gen. and Carl Zeiss" in response to the blackmail letter.

155. In the letter, Dr. Schott stated that while he fully agreed that the Jena management had full authority as a Board of Management he did not believe that this agreement contradicted the statements made in the letter of October 12, 1945, which spoke of two Boards of Management, each in its different zone of occupation; and that the removal of the Heidenheim management "be it through resignation or through dismissal on the basis of the anti-Nazi law" was to be prevented "by all means" because of the possibility that this would lead to the appointment of trustees and the seizure of the Foundation's properties in the American and British occupation zones. His letter read in part:

> "I agree fully with the opinion expressed by my colleagues in regard to the basic question raised by you, namely that by the appointment of the new board of management, done in complete agreement among the Foundation Deputy, the enterprise counsel and us as the sole authorized Board of Management at that time, the question of competence of the present Board of

Management was clearly determined. This question was explicitly discussed by the Foundation Deputy and us and was clearly affirmed in the sense of full authority of the new Board of Management.

"Also, this is not contradicted by the wording of our letter of October 12, 1945 which, I would admit, was somewhat unclear. But then it was not intended to clear up the legal question, but only to point out that it is necessary to protect the Foundation's interests outside the Russian occupied zone by men residing there and recognized by the appropriate military governments, which in this situation, according to my opinion, can only be done by us. I regret very much that this question was not cleared up because of the failure to answer my detailed statement of October 12, and that the meeting urgently requested therein did not come about. We therefore had to continue to act independently, as demanded by the situation, without the desired closer cooperation by the Board of Management in Jena, if we wanted to protect the important interests of the Foundation. If we had not acted in this manner a separation of the enterprises belonging to the Foundation would have been the certain result, as occurred similarly with the AEG through the splitting off of the Berlin enterprises. I would like to make it quite clear that our removal, be it through resignation or through dismissal on the basis of the anti-Nazi law, which would take from us the authority over Foundation interests in the American and English occupation zones, would lead automatically to the appointment of trustees and to the seizure of the Foundation's properties in this zone. This is what we want to prevent by all means and what has caused us

to act and to hide, if possible, the disagreement between the Board of Management in Jena and us which has become known through the numerous letters of the legal department of the glass works in which our authority to act for our firm was denied, and also to create the impression with the already suspicious military governments, that these are only temporary differences of opinion which were caused by the increased difficulties of communication. Only in this manner has it been possible for us until now to succeed in preventing a reaction of the military authorities in the form of a splitting up of the 'concerns', which would perhaps also coincide with the ambition of some gentlemen connected with our affiliated enterprises.

"You will see from this that I consider it, as before, absolutely necessary for the Foundation to have men answerable to it within the various zones. The legal manner in which this will be done is a question of purely secondary nature for which, I am sure, a solution can easily be found which will also satisfy you.

* * * * *

"1. It is not true that I consider myself a member of the sole authorized Board of Management; rather, I have expressly recognized and continue to recognize the Jena Board of Management, as well as the other gentlemen.

"2. It is not true that I maintain no contact with the newly appointed members of the Board of Management. . . ."

156. Dr. Schott's letter did not constitute a resignation by him of his membership on the Board of Management of

the Schott firm. On no occasion did Dr. Schott or the other members of the Board of Management of the Schott firm, Mr. Henrichs and Mr. Hirsch, ever resign their positions, and their lifetime employment contracts were never cancelled.

157. Acting in reliance on these two letters, of January 28 and February 18, 1946, the Jena Zeiss and Schott gentlemen, through Schomerus and Dunger, as purported Mandatories for Zeiss and Schott, respectively, executed and issued two powers of attorney, one to Bauersfeld and Henrichs and the other to Dr. Schott, Hirsch and Henrichs, authorizing the former to represent the Firma Zeiss, and the latter to represent the Firma Schott "outside the occupation zone surrounding Jena".

158. The letter of March 4, 1946, transmitting these powers of attorney, was signed by the Jena Zeiss and Schott gentlemen, as members of the Boards of Management, and reads, as follows:

> "We have noted the contents of your letter of January 28, 1946 as well as the supplementary statements of Dr. E. Schott. We have noted with satisfaction the agreement over our mutual views with respect to the fact that the Boards of Management being in office in Jena have been properly appointed and are alone competent and responsible for the management of the two establishments.
>
> "Recognizing that the former members of the Boards of Management after the restoration of their capacity to transact business are in the first instance entitled to represent the establishments in the non-Russian occupied territories and expecting that the denazifica-

tion carried on by them with our support will soon be successfully completed, we have given power of attorney to Messrs. Professor Bauersfeld, Henrichs, Hirsch and Dr. E. Schott for representing both the establishment outside of the occupation zone surrounding Jena. . . .

"In order to avoid difficulties in legal transactions, the certificates themselves do not contain the general directions and conditions for the use of the power of attorney. With regard to our obligation and responsibility towards the occupation authorities as well as for the maintenance of the uniform business policy in all occupied zones, we ask you, however, to make use of the power of attorney in case of legal affairs of greater importance only if the Boards of Management in office at Jena are themselves not in a position to look after the interests of the establishment in an appropriate way. As far as the undertaking of legal transactions is concerned which appear to you expedient or necessary, we would request you to keep in close touch with us and, if possible, to bring about prior agreement about the views and always to proceed in conformity with the tradition of the Carl Zeiss Stiftung and within the framework of the business policy carried on by the Boards of Management. In case a prior agreement is not possible, we would request you to inform us immediately after the legal transactions have been carried out.

"We ask Messrs. Professor Bauersfeld, Henrichs, Hirsch and Dr. E. Schott to give their consent to these terms of authorization by signing the identical copy of this letter."

Findings of Fact

In accordance with the request, the copy of the letter was subscribed by Henrichs, Hirsch and Schott.

159. In March 1946, Dr. David visited Dr. Kueppenbender who was then at Bad Nauheim and reported to him about the letters of January 12 and 28, about his visit to Jena and his conversations there, and about the cancellation of the names of the Heidenheim management in the Jena register.

160. After this discussion with Dr. David, Dr. Kueppenbender addressed a brief letter to the Jena management in April 1946 concerning "his legal position as a member of the former Board of Management" in which he referred to the letters of January 12 and March 4 (but not to the letter of January 28) and to his discussions with Dr. David, and agreed to the "same arrangement as has been made in the case of my colleagues, Professor W. Bauersfeld and P. Henrichs." Dr. Kueppenbender's reference to his discussion with Dr. David was intended to convey the fact that he adopted the oral qualifications which had been made by the latter in Jena in February 1946; and that he was not resigning but was willing to suspend exercise of his functions as a Board member and allow the Jena gentlemen to hold themselves out as the "Board of Management" in order to appease the Russian occupation authorities and lead the latter to believe that the Jena management was independent of "capitalistic" groups or organizations in the Western zones.

161. Dr. Kueppenbender was subsequently included in a new power of attorney issued in June 1946 to Messrs. Bauersfeld and Mr. Heinrichs. Under the terms of this

power any one of the three could act individually if the other two became unable to do so. In a letter dated June 17, 1946, transmitting the power, Schomerus wrote:

> "After the denazification of Dr. Kueppenbender we have extended to him the power of attorney for the representative of Firma Carl Zeiss outside the occupation zone surrounding Jena as already granted to Prof. Bauersfeld and Henrichs by the certificate of March 7, 1946.
>
> * * * * *
>
> "The certificates of Power of Attorney of March 7, 1946 . . . have thereby become invalid and we request you to return them to us at your convenience.
>
> "The terms fixed in our letter of March 4, 1946 and recognized by Prof. Bauersfeld and Henrichs will continue to apply to the powers of attorney declared in the new certificates. . . ."

162. The purpose of the Board members in Heidenheim in accepting these powers of attorney was to settle the dispute with the Jena management which had prevented the Board of Management from resuming its functions as such with respect to Foundation interests in the Western zones. The powers of attorney served the dual function of partially satisfying the demand of the Jena management for an appearance of authority needed to appease the Russians and of furnishing the Heidenheim management with proof of authority to represent Foundation interests, which they lacked because of cancellation of their names in the Commercial Register. Furthermore, without the powers of attorney or other proof of authority to act, the Heidenheim management might have had difficulty in keeping the Foun-

dation's interests in the West out of the reach of the Russians, who were in control of the Zeiss works in Jena.

163. In September 1946, during a second visit to Jena by Dr. David, the original powers of attorney (which had no termination date) were replaced by an irrevocable five-year power. Under the terms of the power it was to be exercised by any two of the three appointees acting jointly or by one of them acting individually if the others became incapable of acting.

In transmitting these new agreements, the Jena Zeiss and Schott gentlemen wrote letters to the Heidenheim and Western Schott gentlemen, expressly stating that the conversion of the powers to five-year irrevocable powers did not effect any changes in the terms and conditions of authority which had been set forth in the letter of March 4, 1946, and were to be read as subject to those conditions even though they were not restated in the new agreements.

164. The purpose of the new power of attorney was to give the members of the Heidenheim management long-term irrevocable powers which would afford them a legal basis for acting outside the Soviet Zone even in the event that the Carl Zeiss Foundation and its enterprises were destroyed in the Soviet Zone or the Foundation was taken over by Communist authorities.

165. The new irrevocable five-year power of attorney provided that if it was not terminated on three months' notice before the original and any subsequent expiration date, it would be automatically renewed from year to year.

166. There is no evidence that the power of attorney of September 1946 was ever revoked or in any way terminated.

Findings of Fact

167. Commencing on October 22, 1946, the Zeiss and Schott plants in Jena were almost totally dismantled. The dismantling process continued until March or April 1947. As a result 94% of all plant equipment and about 300 employees were transported to the Soviet Union.

168. In October, 1946, when first they received word of the dismantling, the Heidenheim gentlemen, representing themselves and signing as the authorized representatives of the Stiftung under the June 17, 1946 power of attorney, sent a circular notice to the Zeiss affiliates and branches in the West, stating, among other things, as follows:

> "... It cannot be estimated as yet whether and how far the Board of Management so far being in office in Jena can exercise its powers of management. By Power of Attorney of June 17 of this year ..., the following gentlemen ... have been authorized to represent the interests of the Carl Zeiss Stiftung and of the Firma Carl Zeiss outside the occupation zone surrounding Jena. To the extent that the Board of Management which has so far been in office at Jena—consisting of ... Schomerus, Schrade and ... Sandmann—is not able to deal with and decide on the questions relating to your relation to the Carl Zeiss Stiftung and the Firma Carl Zeiss, those questions will be dealt with and decided by us. We would therefore ask you to carry on from now on all correspondence and negotiations on such questions with us until the above mentioned Jena Board of Management will again contact you directly."

By November 25, 1946, however, the situation had cleared, and a second circular letter was thereupon issued, this

time by the Jena Zeiss and Schott gentlemen, as the Boards of Management, reading, in part, as follows:

> "... [W]e want to inform the firms connected with us, all branches, officers and representatives that the existence of the Carl Zeiss Stiftung as well as the legal status and ability to act of its organs and the Board of Management of the establishment have not been touched. The Special Board, the Deputy and the Board of Management continue to work. With the consent of the Occupation Powers and the competent German authorities, the Deputy and the Board of Management have decided to begin with the reconstruction of the establishment with all means independent of the dismantling. We ask all firms and offices which belong to the Carl Zeiss Stiftung and the establishment also outside of the Soviet Occupation Zone, whose relation to the Carl Zeiss Stiftung and the establishment has remained unchanged, to cooperate in the previous manner so that the Jena establishment can regain their old position and importance for the German precision, mechanical, optical and glass technical industry in spite of the present difficulties."

The Jena gentlemen advised the Heidenheim and Western Schott gentlemen that they were issuing the circular letter, noting "that the dismantling of the local works has not changed in any way the legal position of the organs of the Stiftung and the Boards of Management, or affected their capacity to act," and directing the Heidenheim gentlemen "to continue to handle your commission and your power of attorney for looking after and representing the interests of the Carl Zeiss Stiftung and the establishments in such manner as appears from the agreement into which we entered with you on March 4, 1946."

Findings of Fact

169. In December 1946, because of consideration not clear from the record (apparently the Heidenheim gentlemen became incapable of acting in Zeiss affairs until the completion of denazification proceedings, which did not occur until sometime in 1947), the Jena Zeiss gentlemen granted a power of attorney to Hirsch (who had the authority to act), explicitly stating, however, that "the same conditions apply as for your power of attorney issued by the Glass Works and as they are stated in the joint letters of the two Boards of Management of March 4, 1946." Hirsch accepted the power, agreeing to "perform the task conferred upon me to the best of my ability on the basis of my agreement of March 4 and September 6 and 7, 1946 [the agreement making the Schott power irrevocable for five years]"; and when later, in September, 1947, David advised that the denazification decrees as to the Heidenheim gentlemen had become final and that they were once again able to act, the power granted Hirsch was terminated and the Heidenheim gentlemen were restored to their positions as authorized representatives.

170. The January 28, 1946 letter did not have the effect of validating the purported appointment of the Jena group as Boards of Management. It represented only a consent to the functioning of the Jena group as a caretaker management. The Board members in Heidenheim did not resign and the purported appointment by Soviet authorities of the Jena group as Board members continued to remain legally ineffective for the reasons already stated above (see Finding Nos. 88-92).

171. As a result of the dispute precipitated by the Board's letter of October 12, 1945 from Heidenheim to

Findings of Fact

Jena (claiming its powers to function) and the exchanges and conferences between representatives of the Boards in Heidenheim and the Jena management, a compromise agreement was reached, the basic terms of which were:

(1) The January 28 letter would be accepted by Barth and the Jena management as sufficient recognition of the authority of the Jena management, and the Jena management would be permitted to hold itself out as the "Board of Management," even though the Board in Heidenheim was not resigning. Barth and the Jena management would not carry out their threat to secure the dismissal of the Boards in Heidenheim on grounds of Naziism. Instead, they would assist the Heidenheim management in their denazification proceedings in the American Zone by supplying proof of their resistance to Nazi influence at the Zeiss and Schott Works;

(2) Upon the return of the Heidenheim management to Jena the management of the Zeiss and Schott firms by the Jena group would cease to function and the Heidenheim group would resume its functions as the true Boards of Management in accordance with the June 1945 understanding;

(3) During the absence of the Boards in Heidenheim, the interests of the Foundation in the Soviet Zone would be managed exclusively by the Jena management in accordance with the June 1945 understanding;

(4) The interests of the Foundation outside the Soviet Zone would be managed by the Heidenheim group under power of attorney from the Jena group, which would coordinate with the Heidenheim group to some extent;

Findings of Fact

(5) The danger to the Foundation interests in the Western Zones presented by possible Soviet seizure of control of Foundation interests in the Soviet Zone and assertion of authority over interests outside the Soviet Zone was to be reduced by making the powers of attorney irrevocable for five years, which was done in September, 1946. The Heidenheim management, however, would not return to Jena during the period of Soviet occupation because of the hostility of the Soviet authorities towards "persons which were already then described as capitalistic groups or organizations in the western zones."

172. Under the compromise, the Jena management maintained its appearance as the true Boards of Management, avoiding its removal by Russian occupation authorities and replacement by Communist functionaries hostile to the Foundation Statute and tradition. The Jena management also reaffirmed its agreement to relinquish its functions upon return of the real Boards from Heidenheim and, in order to protect the latter's position, dropped its attempt to remove the official Boards from office and to secure their own valid appointment to the Boards of Management.

173. The grant of powers of attorney to the Heidenheim group and of considerable independence in the management of Foundation interests in the Western Zones no longer endangered the position of the Jena management in the eyes of Russian occupation authorities as much as it had earlier because Heidenheim's apparent Naziism was in the process of being removed through denazification proceedings in the American Zone, in which the Jena

management would assist. The grant of the powers themselves, accompanied by considerable independence, could be explained as necessary in view of the division between the Soviet and Western Zones and the danger of a seizure of Foundation interests in the Western Zones if those interests were controlled from the Soviet Zone.

174. Under the compromise, the Heidenheim management achieved its purposes of avoiding a statement of resignation and of resuming its management of Foundation interests in the Western Zones. These goals were obtained at the expense of writing the January 28 letter which might be claimed to constitute a renunciation of their positions, and of accepting powers of attorney from the Jena management and agreeing to accept the latter's supervision to some extent.

175. The 1946 compromise did not alter the legal position of the Heidenheim group as the true Boards of Management currently in a state of "suspension" and prevented from carrying out their functions during their absence from Jena.

176. Neither the January 28, 1946 letter nor the conduct and correspondence of the parties constituted a resignation by the members of the Boards in Heidenheim.

177. No member of the Zeiss Board of Management in Heidenheim ever tendered his resignation orally or in writing to the Special Board in Weimar or anyone understood to be purporting to act in its behalf. Nor is there any evidence that their lifetime employment contracts were ever cancelled or that they were dismissed from their offices.

Findings of Fact

178. The agreement of the Heidenheim management to temporarily refrain from the exercise of their functions as the Boards of Management, to act under powers of attorney from the Jena management, and to hold out the Jena management as the true Boards did not constitute a resignation by operation of law, effective even in the absence of an intention to resign, because such action was taken on account of the emergency situation created by the division of Germany into hostile parts in which loss of substantial Foundation assets was threatened in both the Soviet and Western Zones.

179. Thus the members of the Zeiss Board of Management in Heidenheim continued legally in office even after January 28, 1946, although they agreed temporarily to suspend exercise of their functions and to act outside the Soviet Zone on the basis of powers of attorney from the Jena management.

180. The 1946 compromise served as a basis for cooperation between the Heidenheim management and the Jena management until the spring of 1948 when the situation was drastically altered by expropriation in the Soviet Zone. The Jena group continued to manage Foundation interests in the Soviet Zone and to hold itself out as the Boards of Management. Foundation interests in the Western Zones were managed by the Heidenheim group under power of attorney from the Jena group. Although the Heidenheim group considered itself responsible for these interests as the Boards of Management, it acted under the powers of attorney instead of seeking recognition of its true position as the Boards of Management in order to comply with the demand of the Jena management, which

believed that the power of attorney arrangement was necessary to protect itself from Soviet occupation authorities and to maintain the unity of the Foundation under the direction of Jena in accordance with the Foundation Statute and tradition.

181. The arrangements made in 1945 and 1946 were not inconsistent with the Statute of the Foundation. Section 7 does not preclude that under special circumstances the number of the members of the Board of Management may exceed four. This applies *a fortiori* to the appointment of an acting caretaker Board of Management to function in the absence of the original Board.

182. The Federal Supreme Court of Germany, in a decision rendered in July 1957 in an action between the plaintiff Zeiss firm in Heidenheim and defendant VEB Carl Zeiss Jena determined on the basis of an examination of the exchange of correspondence in January 1946 and the powers of attorney of March 1946 that, as a matter of German law, the members of the Zeiss Board of Management did not resign but merely agreed not to exercise their functions while they were absent from Jena and to recognize the competence of the Jena management to act in their place. The Federal Supreme Court so found without the evidence in this case that the letter of January 28, 1946, was delivered with an oral explanation making it clear that no resignation was intended.

183. The 1946 compromise did not alter the legal position of the Jena group as a caretaker management exercising the functions of the true Boards of Management while the latter were "suspended" during their absence

from Jena. No attempt was made to improve the legal position of the Jena management as the validly appointed Boards of Management until 1951, see Finding No. 365.

Meanwhile, as the Heidenheim and Jena managements continued to act on the basis of the 1946 compromise, the purported two-year appointments were disregarded and expired. The Court rejects Schrade's testimony that in 1947, shortly before the expiration of two years from June 27, 1945, the date of the original appointments, Barth advised the six gentlemen in Jena that their two-year appointments were to be deemed extended for life.

184. The members of the Heidenheim management continued to consider themselves responsible for the affairs of the Foundation in the West as the original members of the Board of Management.

185. In accordance with the 1946 compromise the Heidenheim Board, in addition to use of the powers of attorney given them, avoided indicating their true position as members of the Boards of Management. Thus in a letter of June 18, 1947, from Henrichs to Bayerische Beamten Versicherungsanstalt, a Munich insurance company, in response to its inquiry, Henrichs wrote:

> " . . . I cannot let him [an officer of the insurance company] have a decision valid for Jena, because my colleagues and I, transplanted by the Americans to this place two years ago, are no longer members of the Board of Management of Firma Carl Zeiss, the domicile of which is in Jena according to its Statute so that the seat of the Board of Management must be in Jena, too."

Findings of Fact

186. In keeping with the compromise agreement, from early 1946 until at least mid-1948 (upon the nationalization of the Zeiss and Schott Works in Jena, the Heidenheim Boards consistently referred to themselves not as Board members but rather as the authorized representatives ("bevollmaechtigte Vertreter") for Zeiss or Schott (as the case might be) under their powers of attorney, and referred to the Jena Zeiss and Schott gentlemen as members of the Boards of Management. During that period of more than two years, there was no writing, internal or otherwise, in which the Heidenheim or Western Schott gentlemen signed or were designated as the Boards of Management or members of the Boards. The Jena Zeiss and Schott gentlemen repeatedly addressed letters to them which they (the Jena gentlemen) signed and in which they referred to themselves as the Boards of Management for Zeiss and Schott or the Stiftung Mandatories (who, under the Statute, of course, had to be Board members); and in which they characterized the Heidenheim and Western Schott gentlemen as the "old" or "former" Boards or Board members. Conversely, the Heidenheim and Western Schott gentlemen and David and other of their subordinates repeatedly sent letters to Jena in which they addressed and referred to the Jena Zeiss and Schott gentlemen as the Boards of Management, members of the Boards, or Mandatories.

187. Thus, for example, in a letter of January 31, 1947, addressed by Henrichs to Schomerus, as member of the Board of Management for Zeiss, Henrichs characterized the Heidenheim gentlemen (including himself) as "the old Board of Management." Another example appears in an

internal memorandum by Henrichs dated April 18, 1947, stating that:

> "Schrade believes that he can acknowledge the continuation of the statutory rights as a matter of principle and will soon bring about the comment and decision with the Deputy and the Board of Management of Schott in Jena. . . ."

188. The Heidenheim management also addressed and referred to persons of the Jena management as "members of the Board of Management" for reasons of convenience. For example, in a personal letter of February 22, 1946, to Schrade, Henrichs wrote in part, as follows:

> " . . . I learned from Sandmann that you have to work even more than everybody else and that the greatest burden of the work and responsibility in Jena probably rests on your shoulders. Moreover, you are also a member of the Board of Management of Schott and will have to give your good advice in important matters there as far as your time permits."

189. Similarly, on June 27, 1946, in a letter addressed to Schomerus, as a member of the Zeiss Board of Management, Henrichs acknowledged receipt of the power of attorney, confirmed that the Heidenheim gentlemen intended to use the Opton name and urged that Schomerus and the Board of Management send letters for use in Henrichs' denazification proceeding.

190. The Jena management employed similar usage. For example, in a letter of August 18, 1947, to Henrichs, written and mailed by Schomerus while visiting in the British Zone,

he reported that certain proposed amendments to the Foundation Statute were being considered by the Special Board in the Soviet Zone and that the pension rights question had been discussed at "the last meeting of the Boards of Management with the Deputy".

191. None of these writings evidences a course of conduct inconsistent with the arrangements made between the Boards in Heidenheim and the Jena management in 1946.

192. With respect to the actual management of Foundadation interests in the Western Zones as distinguished from formal authority, the Heidenheim group sought to act with as much independence as possible on the grounds that it was the true Board of Management. On the other hand, the Jena management sought to supervise the management of Foundation interests in the Western Zones in order to maintain its appearance to the Soviet authorities of being the Boards of Management.

193. In accordance with the 1946 compromise, the Heidenheim group conceded that the Jena group had some voice in the management of Foundation interests in the Western Zones. Thus during the period from January 28, 1946 to June 1, 1948, numerous writing were exchanged between the Heidenheim management and the Jena management, and on numerous occasions the views, consent or concurrence of the Jena management were sought in such matters as the pension rights of the Zeiss personnel in the West, the amounts of jubilee payments and other matters of a similar nature.

194. The use of the powers of attorney by the Heidenheim management in accordance with the 1946 understand-

ing is illustrated in the incorporation of the Opton company to conduct business in Heidenheim.

195. One of the main purposes of the American military forces in transferring the Zeiss Board of Management and the Zeiss firm's top scientific and managerial personnel to the American Zone of Occupation was to establish there a Zeiss enterprise capable of operating and producing equipment needed by the United States Armed Forces to help in prosecuting the war in the Pacific Theatre.

196. Although it had been planned to transfer from Jena to Heidenheim the equipment and blueprints necessary for the production of scientific and optical instruments, and such equipment and blueprints had actually been packed for transportation to Heidenheim, they never arrived at their destination.

197. Because of the failure of the equipment and blueprints to arrive in Heidenheim, the first task which faced the Zeiss group was the preparation, from memory, of blueprints for the construction of machines to be used in the production of scientific and optical instruments.

198. At the same time with the assistance of the American Occupation authorities, the Zeiss group was able to obtain equipment belonging to the Zeiss firm from Bavarian caves in which such equipment had been hidden. In addition, the American Occupation authorities released certain industrial space located at Oberkochen, a small town neighboring Heidenheim, for use by the Zeiss group.

199. Soon after the arrival of the Zeiss group in Heidenheim, an office of the Carl Zeiss firm was established under

the name of the "firm Carl Zeiss, Heidenheim office," on the premises of the Voith firm, and thereafter Mr. Henrichs maintained his office there.

200. In the summer of 1946, the Zeiss group obtained space in the Leitz factory in Oberkochen where they commenced preparation for the establishment of production facilities. At that time the group consisted of approximately 200 employees (90% of whom had been formerly employed at the Zeiss works in Jena).

201. On or about October 4, 1946, a limited liability company was organized in Heidenheim under the name of "Opton GmbH."

202. Opton's principal assets consisted of the Oberkochen production facilities.

203. With the exception of 3 million marks which the Heidenheim management brought with them from Jena in 1945, no funds originating in Jena were used in connection with the establishment and development of the production facilities at Oberkochen.

204. This new company was established to engage in the manufacture and sale of optical and precision mechanical instruments, and its entire capital of 1,000,000 RM was subscribed by the Foundation in Jena; 950,000 RM through Dr. Riedinger, acting under a power of attorney granted on June 25, 1946, by Sandmann, as Mandatory, and the remaining 50,000 RM indirectly for the Foundation by Dr. Hansen and Mr. Steinle, both acting under a trust agreement with the Foundation.

Findings of Fact

205. The formal articles of the Opton Company, for which David was responsible, expressly stated that Riedinger was acting for the Carl Zeiss Foundation, domiciled at Jena, by virtue of the June 25, 1946 power of attorney and made express reference to the 950,000 RM capital contribution by the Foundation.

206. Opton's articles of incorporation included a clause according to which the members of the Heidenheim management were to be the exclusive representatives of the Foundation with respect to Opton as long as they had power to represent the Foundation outside the Soviet Zone of occupation.

207. The reason that a separate entity instead of a branch factory of the Zeiss firm was organized to build up production facilities in the West was that in the opinion of the Jena management the creation of a branch would have increased the likelihood of dismantling of the Zeiss plant in Jena by the Soviets. Mr. Sandmann had warned Mr. Henrichs of this possibility at their meeting in Heidelberg in December 1945.

208. Ninety-five per cent of the capital stock of Opton was issued directly to the Carl Zeiss Foundation and 5% to two named individuals to be held in trust for the Foundation.

209. During the 1946-1948 period the Heidenheim gentlemen called the attention of the Zeiss Board in Jena to matters affecting the businesses of Opton and other subsidiaries of the Stiftung in West Germany, and they solicited the advice and consent and acquiesced in the decisions

of the Jena Zeiss gentlemen on such matters, even though on occasion the decisions did not accord with the recommendations made by the Heidenheim gentlemen. Thus, they sought the approval and consent of the Jena Zeiss gentlemen for jubilee bonus payments and severance payments to Opton employees in Heidenheim; for the designation of new managers for firms in the West; for the formulation and adoption of policies in the operation of those firms; for the cancellation of prokurist registrations and the appointment of new prokurists for such firms; and for the grant and extension of leaves to employees of Opton.

210. The name of Opton was changed to "Zeiss Opton GmbH" in January 1947. Pursuant to the arrangement between the Jena and Heidenheim managements relating to the issuance of the powers of attorney, the Heidenheim management sought and obtained the Jena management's concurrence in this action.

211. It was initially proposed that the name "Zeiss Opton" be used for the new company, but Sandmann rejected the proposal, insisting that the new firm must first prove its capability to produce goods of Carl Zeiss quality. When the articles were thereafter amended to change the name to "Zeiss Opton", the change was not put into effect until first the consent of the Jena management had been obtained.

212. The circumstances relating to the dispute as to the pension rights under the Foundation Statute and Foundation Pension Statute of the employees at Heidenheim illustrate that the borderline between the authority of the Jena and Heidenheim managements was not always free

from controversy. The Jena management was seriously concerned with the pension rights of the Heidenheim employees because recognition of those rights would subject the Zeiss and Schott firms *in Jena* to substantial liability during a period of financial difficulty.

213. The pension question was apparently first raised early in 1946, but was not resolved. In August 1946, however, Kueppenbender issued a written statement to the Opton employees, on behalf of the Firma Carl Zeiss, declaring that notwithstanding their departure from Jena and employment at Opton, their rights under their employment contracts with the Firma Zeiss were not affected. Neither the Jena Zeiss gentleman nor Barth had authorized the statment, and, when it came to their attention, they vigorously objected; this appears from a letter of Sandmann to Henrichs, of October 11, 1946, reading, in part, as follows:

> "The Board of Management does not acknowledge the statement of Dr. Kuppenbender because it exceeds by far the scope of the promises made so far. We have so far unequivocally declared that a clarification of the rights of the deported persons shall not be made at this time, because individual cases may demand a different decision under certain circumstances and an objective examination of individual cases is not possible at present. . . .
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> ". . . No responsible authority . . . has made an announcement that a general decision concerning the legal position of the deported persons has now been made. Since the view of the Jena Board of Manage-

ment with respect to this problem has been sufficiently known, it was not correct either that this statement of great importance was issued without contacting Jena. . . ."

214. A letter of October 17, 1946, from Schomerus to Riedinger and others (who comprised a committee of scientists employed at Opton) similarly repudiates the Kueppenbender statement.

". . . the statement of Dr. Kuppenbender of August 26, 1946, starts from a legal position which we cannot acknowledge much less can we acknowledge the further legal consequence which you derive from it . . . [T]here is no necessity and . . . no possibility to issue a general regulation at this time. We can only say that the employment by Opton G.m.b.H. will not affect previously existing legal relations. Our opinion has been reaffirmed in the meeting of the Board of Management with the Deputy of October 9, 1946, where it was expressed that we will maintain our attitude, i.e., to look benevolently upon the deserving individual case. . . ."

Transmitting a copy of this October 17 letter to the Heidenheim gentlemen, Schomerus, on behalf of the Zeiss Board, wrote, as follows:

"The statement of Dr. Kuppenbender [of August 26, 1946] is a decision of such far reaching importance that it can only be made by the Board of Management in agreement with the Deputy. . . ."

215. In a meeting with the Heidenheim gentlemen at Heidenheim in January 1947, Sandmann reiterated that the gentlemen in Jena insisted that the Kuppenbender

declaration of August 26, 1946, had not been authorized and must therefore be retracted. An internal memorandum of that conference prepared by David reports Sandmann as stating that the powers of attorney granted to the Heidenheim gentlemen must be restricted to use only "in extreme cases", that is, "emergencies" and "not in the regular course of business" and that the "regular course of business shall remain with the management in Jena; they carry the responsibility". Sandmann asked that this limitation be observed and that declarations such as the one relating to pension rights be issued only from Jena and not by the Heidenheim gentlemen under their powers of attorney. David's memorandum reports that a heated discussion ensued, in the course of which David asked if Jena intended to dispense with the "know how and experience" of the Heidenheim gentlemen, an attitude he found difficult to understand since exactly one year ago, the authorized representatives had to renounce, under extraordinarily painful circumstances, the exercise of their authority, and that if anyone had cause to complain about the policies of the Jena Board "it would be the *Heidenheim members of the Board of Management*". Whereupon Sandmann, retreating from his firm stand, agreed that he would recommend to his colleagues in Jena that they accord more authority to the Heidenheim gentlemen.

216. The Jena group also attempted to supervise the management of Foundation interests in the Western Zones other than the Heidenheim-Oberkochen facilities, particularly in matters of general importance.

217. For example, on March 21, 1947, Sandmann, writing on behalf of the Zeiss Board of Management, informed

Dr. Kuehn (then the manager of the Winkel firm in Goettingen) that his salary as manager of the Winkel firm was being increased.

218. On April 21, 1947, Sandmann sent Henrichs a set of instructions prepared for use by Zeiss affiliated firms, among which was one prohibiting the managers of such firms from engaging in other compensated activities without the "consent of the Board of Management of the Firma Carl Zeiss of Jena".

219. Similarly, in a letter of January 15, 1948, from the Zeiss Board of Management in Jena to the manager of Winkel in Goettingen, the use of the trademark "Zeiss Winkel" was approved for products then being manufactured by the Winkel firm in Goettingen because those products were of a satisfactory quality, but withholding permission to use the mark on new products before examination by Jena to assure that they were "products of highest quality."

220. The Jena group also became involved in the management of Foundation interests in Western Zones when the authority of the Heidenheim management was called into question.

221. When Henrichs became concerned about a misunderstanding among some persons in Jena as to the loyalty of the Heidenheim gentlemen to the Stiftung and its enterprises, he sent a letter to the Board in Jena, on April 30, 1946, asking that "the Board of Management take appropriate steps to stop this" and suggesting that "the Board of Management call a meeting of the superior officers and colleagues and give the relevant explanations."

Findings of Fact

222. When, in 1946 or 1947, Dr. Kuehn (then the manager of the Winkel firm in Goettingen and later, in the 1960's, a member of the Heidenheim Board of Management for Zeiss) refused to transfer certain machines from Goettingen to the Opton plant in Oberkochen until he had secured Jena's approval, Kueppenbender urged Sandmann to instruct Kuehn to do so; and the Heidenheim gentlemen proposed, in order generally to clarify the relationship between Jena and Heidenheim, that a regulation be adopted which would require all employees of Zeiss subsidiaries in West Germany to follow the instructions of the Heidenheim gentlemen unless they had clear instructions to the contrary from Jena.

223. In June 1945 Jena was the headquarters of the Foundation in accordance with its Statute and tradition. The domicile of the Foundation was there. Its Boards of Management were there. Its only "Works", i.e., industrial enterprises directly owned by the Foundation and operated in accordance with the Statute, were there. Although it had substantial interests in what later became the Western Zones of Germany, these were in the form of affiliated companies, i.e., subsidiaries, which were not operated as "Works" governed by the Statute. However, the Statute did contemplate the possible establishment of other "Works", managed by their own boards of management, outside of Jena. Also, in accordance with the Statute, the Foundation owned non-industrial assets principally located in Jena and maintained close relations with the community of Jena and its university.

224. By the spring of 1948 the Foundation and its interests were drastically altered as the result of a series of

unusual circumstances that developed in post-World War II, occupied Germany: the division of Germany into hostile Soviet and Western Zones; the Soviet sequestration and dismantlement of the Zeiss and Schott works in Jena; the development of "Zeiss Opton" production facilities at Oberkochen and elsewhere in the Western Zones that would be able to manufacture and sell scientific and optical instruments of the type formerly made at Jena; and, finally, the 1948 Soviet expropriation of the Foundation's commercial assets.

225. In December 1945 the Russians sequestered the Zeiss works on the basis of Order No. 124 and named Dr. Schrade as the sequestrator. Under the law then in effect in the Soviet Zone, a sequestrator had exclusive responsibility for management of the sequestered properties and was solely and personally responsible to the Soviet authorities, and not to the private owner, for their administration. Thus, after December 1945 Dr. Schrade was the only member of the Jena management with any legal authority to administer the assets of the Zeiss firm in the Soviet Zone of Occupation.

226. Under Order 124, the trademarks used in connection with the sequestered assets were expressly included in the sequestration.

227. Shortly after the dismantling of the Zeiss and Schott plants (see Finding No. 167), a so-called Expropriation Commission was organized in Thuringia with the task of determining which sequestered assets were to be returned to their private owners and which were to be expropriated and transferred to public ownership.

Findings of Fact

228. During the period from July 1945 to about June 1948 the production facility at Oberkochen was in the process of being established and it was physically unable to produce and sell commercially scientific and optical instruments.

229. The first commercial sales were made by Zeiss Opton in 1947 and consisted of spectacle lenses made at Oberkochen and photographic lenses (marked "Tessar") made at the branch factory of Zeiss Opton in Coburg in the American Zone.

230. Sales in the American, British and French Zones of Germany and in West Berlin were handled by the sales offices of the firm Carl Zeiss in Hamburg, Berlin, Munich, Stuttgart, Frankfurt and Cologne.

231. The first commercial sales of scientific instruments produced at Oberkochen were made in about June 1948, at which time the Zeiss group at Oberkochen numbered approximately 800 employees.

232. Zeiss Opton was not an ordinary affiliated company of the Foundation but was operated by the Zeiss Board of Management as a "Works" governed by the Foundation Statute to the extent that the unusual circumstances of post-war Germany permitted.

233. Similar circumstances existed with respect to the Schott firm, the Board of Management of which was located at its branch factory at Landshut in the Western Zone.

234. The Foundation interests in the Western Zones were to a large extent managed by the Zeiss and Schott

Boards of Management located in Heidenheim and Landshut, with limited supervision from the caretaker management in Jena.

235. Heidenheim and Landshut thus became in fact new centers of the Foundation, equal in importance to Jena in the administration of the Foundation's interests.

236. In the unusual circumstances of post-war Germany, this development did not violate the Foundation Statute. Although the intentions of the founder, Abbe, as reflected in the Statute, stressed the importance of Jena as the home of the Foundation, this affinity for Jena was not based on considerations other than that it was the place where the Foundation had originated and where it anticipated it would continue to exist. In view of the increasing probability of the destruction of the Foundation industrial enterprises in Jena by Soviet occupation authorities whose increasing hostility to the Foundation was indicated by the sequestration, dismantling and threatened expropriation of the Zeiss and Schott Works, Abbe would not have barred the creation of a new home for the Foundation in the Western Zone.

237. Some time during the spring of 1948 the Expropriation Commission in Thuringia, which had been organized by the Soviet occupation authorities after their sequestration of the Zeiss firm's assets, voted to include the Foundation enterprises Zeiss and Schott on a list of business enterprises whose sequestered assets were to be expropriated and not returned to their private owners.

238. Dr. Schrade was a member of the Expropriation Commission but abstained from voting on the motion to expropriate the assets of the Zeiss and Schott enterprises.

Findings of Fact

239. On April 17, 1948, the Soviet Military Administration issued an order (No. 64) ratifying the action of the Expropriation Commission.

240. In February 1948 the Soviet Military Administration had created the German Economic Commission, a body which was to supervise the establishment of a new socialist economy in the Soviet Zone.

241. The German Economic Commission issued two decrees implementing SMA Order 64 and providing that trademarks were to be included among sequestered business assets which were being expropriated unless expressly excepted therefrom.

242. There is no evidence that any such exception was made in the case of the Zeiss works in Jena, and it was understood by the personnel at the Zeiss works as well as by the officials of the People's Owned Enterprises (VEB) which took possession of the assets of the Zeiss firm that the trademarks were parts of the assets of the VEB.

243. The decree confirming the expropriation, issued on June 1, 1948, by the Government of the Land of Thuringia, stated that the expropriation extended to the "Optical Mechanical Works Zeiss, Jena, as well as all other assets which had been 'sequestrated in accordance with Order No 124,' without exception."

244. A similar decree was issued by the Government of Thuringia on June 1, 1948, confirming the expropriation of the Schott works.

245. Under the law then in effect in the Soviet Zone of occupation, expropriations were in principle intended to

encompass assets of the expropriated owner everywhere in Germany, including the Western Zones of occupation.

246. The expropriation of the assets of the Zeiss and Schott firms deprived the Carl Zeiss Foundation of all of its industrial and commercial assets in the Soviet Zone of occupation.

247. The assets of other enterprises in the Soviet Zone in which the Foundation had an interest had been expropriated earlier, so that after June 1948 the Foundation was no longer engaged in any industrial or commercial activity in the Soviet Zone.

248. After the expropriations the Jena managements no longer performed any functions or had any functions to perform with respect to the Foundation enterprises Zeiss and Schott.

249. After the expropriations there were no functions for a Foundation Deputy to perform under the Statute in the Soviet Zone.

250. After the expropriations the Foundation ceased to be entitled to receive any profits from the operation of the Zeiss and Schott firms in the Soviet Zone.

251. After the expropriations the Foundation no longer had any Reserve Funds in the Soviet Zone for the payment of pensions and for other purposes as required by the Statute and no longer had any profits to dispose of.

252. There was therefore no further functions for a Special Board to perform in the Soviet Zone after June

1, 1948, and the Foundation organs thereafter in fact ceased to function and the holding of Foundation meetings was discontinued.

253. The Special Board, Foundation Deputy and Boards of Management of the Foundation enterprises were shortly thereafter formally abolished as organs of the Foundation by a resolution adopted by the German Economic Commission on June 16, 1948. There is no evidence that this Resolution has ever been revoked.

254. The resolution provided that a committee to be appointed by the Commission was to prepare a new statute for the Foundation for submission to the Commission, "taking into consideration the economic and social changes which have meanwhile occurred."

255. The resolution provided that until the coming into effect of the new statute, the powers of "all the governing bodies of the Foundation" were to be exercised by a State Commissioner appointed by the Commission and that the Commissioner would decide on which provisions of the old Statute were to be applied or submit suggestions with respect thereto to the Commission.

256. The resolution did not specify what relationship the People's Owned Enterprises Zeiss and Schott would have to the Foundation but provided that their "rights and duties in relation to the Carl Zeiss Foundation [would] be laid down in the new version to be drawn up of the Statute of the Foundation"

257. In adopting its resolution of June 16, 1948, the German Economic Commission rejected a proposal made

by Dr. Schrade in a letter which he had addressed to the Commission on May 25, 1948.

258. In his letter Dr. Schrade had requested that, in order to permit retention of control by the East over the assets of the Foundation in the Western Zone and to prevent the establishment of a Foundation in the West with the capacity to build up enterprises there which could compete with the Jena enterprises, it was desirable that the Commission adopt a resolution requiring the nationalized enterprises to continue to perform the functions assigned to them under the Statute of the Foundation, which should be continued in effect.

259. Pursuant to its resolution of June 16, 1948, the Commission appointed Professor Rompe as State Commissioner and transferred to him the functions of all the organs of the Foundation.

260. However, no new statute was ever prepared as required by the resolution, and Professor Rompe never exercised any functions as Commissioner.

261. The fact that there were no functioning organs of the Foundation in accordance with the Statute after June 1948 is confirmed by the failure to appoint anyone to replace Dr. Barth after his death in 1949 and to replace Dr. Schomerus after his retirement in March 1949.

262. It is not clear whether the expropriations extended to the non-industrial assets of the Foundation. There is no evidence that they were expressly excluded from the expropriation measures and neither Dr. Schrade's letter of May 25, 1948, nor the Resolution of the German Economic Commission gave any indication that the non-industrial

assets remained the property of the Foundation after the expropriation. In any event, after the expropriation they were no longer managed by the Boards of Management of the Zeiss and Schott firms and the Deputy as before, but were financed and administered directly by the state.

263. The expropriation of the industrial assets of the Carl Zeiss Foundation was clearly inconsistent with the will of its founder, Ernst Abbe, and rendered it impossible for the Foundation to continue to carry on any commercial activities or to fulfill its statutory purposes in the Soviet Zone. The Statute demonstrates that the commercial enterprises owned and operated by the Foundation formed its *raison d'etre*. Indeed, Professor Abbe had expressly provided that in the event of their loss the Foundation was to be liquidated and not left to continue as a mere holder and administrator of non-industrial property.

264. On November 30, 1948, the firm name Carl Zeiss was cancelled in the Commercial Register of the County Court of Jena, and a new entry was made declaring that the firm "Carl Zeiss" had become the "property of the people." The firm name remained registered, however, in the Commercial Registers of Berlin, Hamburg and Cologne, where the firm had branch establishments.

265. On November 20, 1949, a further entry was made in the Commercial Register of Jena correcting the prior entry so as to change the name of the firm Carl Zeiss to "Optik Carl Zeiss Jena VEB". The initials VEB stand for "Volkseigenerbetrieb" or people's owned enterprise.

266. From June 1948 until May 1951 the confiscated Zeiss and Schott enterprises formed a part of the V.V.B.

Optik, an association of people's owned enterprises engaged in manufacture of precision mechanical and optical instruments, of which Dr. Schrade was the Chief Director.

267. In May 1951 the two enterprises were separated from the association and became independent legal entities directly subordinated to the Ministry of Machine Construction in East Berlin and under the control of other state agencies.

268. At the same time Dr. Schrade was appointed Works Director of both the Zeiss and Schott VEBs and in that capacity was solely responsible to the Ministry for Machine Construction for the management of the enterprises.

269. Since that time the internal and external operations of the enterprises have been under the direct control of the East German Government and subject to governmental orders and decrees.

270. At the time of the expropriation of the Foundation's assets in the Soviet Zone, the Foundation owned directly, as part of the assets of the Zeiss and Schott firms, the following properties in the American, British and French Zones as well as various intangible property, including patents, trade names and trademarks, bank accounts and claims:

1. Branch offices of the Zeiss firm in Heidenheim, West Berlin, Hamburg, Cologne, Frankfurt, Munich and Stuttgart. Through these branches, the Foundation continued to carry on business outside the Soviet Zone under the firm name Carl Zeiss in these various locations since the assets of the branches formed a part of the assets of the Zeiss firm under the Statute.

2. A factory for the manufacture of glass at Landshut in Bavaria which formed a part of the assets of the Schott firm, and sales branches of the Schott firm. The Foundation thus also continued to carry on business under the firm name Jenaer Glaswerk Schott & Gen. outside the Soviet Zone.

271. The Foundation also had interests in all the corporations outside the Soviet Zone listed in Finding No. 47 as well as in Zeiss Opton GmbH.

272. Under German law as interpreted and applied in the Western Zones, the expropriations did not reach or affect any of the Foundation's assets in those zones or later in the German Federal Republic (West Germany), which was formed on September 21, 1949.

273. The total value of the industrial assets of the Foundation (excluding intangibles) located in the American, British and French Zones of occupation as of June 1948 amounted to approximately 30 million marks. The Foundation owned no industrial assets in the Soviet Zone of occupation after the expropriation, and even assuming it still owned some non-industrial assets in Jena, these assets were valued at only approximately 3 million marks.

273A. From approximately June 1948 until the end of September 1953, when the assets of Zeiss Opton were merged with those of the firm Carl Zeiss, Zeiss Opton engaged in the production and sale (in the United States as well as in other countries) of optical instruments and scientific equipment using principally the trademarks "Opton", "Zeiss Opton", "ZO", and certain marks used

by the Carl Zeiss firm prior to 1945, including "Tessar", "Sonnar", "Umbral" and "Punktal".

273B. During the period June 1948 to October 1953 the production facilities at Oberkochen were engaged in the production of only a limited line of products because of physical and financial impediments to the production of a full line of products such as had been included in the pre-war production program at Jena.

273C. In 1953 the Oberkochen facilities experienced their first year of profitable operation. 1954 and 1955 were loss years, but since 1956 the Zeiss firm in Heidenheim has operated at a profit.

274. The members of the Heidenheim management were informed about the expropriation of the Foundation's industrial assets in the Soviet Zone shortly after June 1, 1948.

275. The expropriation of the industrial assets of the Foundation in the Soviet Zone and the consequent shift of the principal center of its activities to Heidenheim removed a basic reason for the agreement made by the Heidenheim management in 1946 to refrain from exercising their functions as members of the Board of Management, i.e., protection of the Jena enterprises and the Foundation's economic interests in the East. With the basis of the agreement gone, the members of the Heidenheim management were no longer bound not to exercise their functions.

276. In a meeting with the Heidenheim management in October 1948 Mr. Sandmann stated that since the expropriation no boards of management or Deputy existed

in the East in accordance with the Statute. He was then informed that certain steps had been initiated by the Zeiss management in the West in order to save the Carl Zeiss Foundation and its enterprises outside the Soviet Zone.

277. Earlier in 1948 Dr. David had held informal discussions with the Ministry of Education of the State of Wuerttemberg-Baden with respect to possible governmental action which might be taken to preserve the Foundation in the Western part of Germany in the event it should be deprived of its industrial properties in the Soviet Zone.

278. On July 30, 1948, the Zeiss and Schott Boards of Management in Heidenheim made a written request to the Ministry of Education for the issuance of an administrative act or decree creating a new domicile for the Foundation in Heidenheim and creating a "Vorstand", or Administration, for the Foundation to exercise the functions of the Special Board in accordance with the Foundation Statute. Although the letter to the Ministry was signed by the members of the Zeiss and Schott Boards of Management as "authorized agents" of the Foundation and the letter recited that they were acting as such pursuant to powers of attorney issued by the Foundation in Jena in 1946, the letter described each of them as a "member of the Board of Management" of his respective firm and declared that each had been appointed to serve in that capacity for life.

279. Following the submission of the letter of July 30, 1948, discussions were held between Dr. David and officials of the Ministries of Education and Justice of Wuerttemberg-Baden during which the Minister of Justice suggested that instead of creating a new supreme organ for the

Foundation as proposed in the letter of July 30, 1948, it would be more appropriate to designate the members of the Zeiss Board of Management in Heidenheim as empowered to administer the affairs of the Foundation and exercise the functions of the Special Board pursuant to Section 114 of the Statute.

280. Section 114 of the Statute provided that if at any time a Special Board as defined by the Statute no longer existed, then until the new formation thereof, its functions were to be taken over by the Board of Management of the Zeiss firm.

281. On February 23, 1949, the Ministry of State of Wuerttemberg-Baden issued an administrative act or decree amending Section 3 of the Foundation Statute by adding Heidenheim as a legal domicile of the Foundation. The administrative act also decreed that the affairs of the Foundation were to be administered by Messrs. Bauersfeld, Kueppenbender and Henrichs as members of the Zeiss Board of Management pursuant to Section 114 of the Statute.

282. The State of Wuerttemberg-Baden, created by the American Occupation Power in September 1945, comprised parts of the former states of Baden and Wuerttemberg and included the counties of Heidenheim and Stuttgart. (In 1951 the pre-War states of Baden and Wuerttemberg were combined to form the State of Baden-Wuerttemberg.)

283. The Proclamation creating the State of Wuerttemberg-Baden provided that German law as in effect at the time of the Occupation was to be applicable until repealed or superseded by new laws enacted by the Control Council

for Germany (consisting of the four Allied Commanders-in-Chief) or by Military government or the State of Wuerttemberg-Baden itself.

284. The Proclamation vested full legislative, judicial and executive powers in the State of Wuerttemberg-Baden and any other states created in the American Zone.

285. This grant of full legislative, executive and judicial powers was reaffirmed in Proclamation No. 4 issued March 1, 1947.

286. The decrees of the Wuerttemberg Government were intended to give the Carl Zeiss Foundation in Heidenheim legal confirmation of their authority to claim and administer the assets of the Foundation in the Western world, including the United States.

287. The decision to establish a new domicile for the Foundation in Heidenheim was reached after a thorough study of the legal considerations by the Ministries of Education, Justice and State of Wuerttemberg-Baden.

288. While the decree of February 23, 1949, was issued in response to an application by the Heidenheim managements, it could have been issued even without receipt of such an application, since the Soviet expropriation of its assets and destruction of its Jena management, leaving very substantial assets and personnel with a *de facto* administration in Heidenheim, was a matter of public interest necessitating that the right of the Boards in Heidenheim to continue its statutory functions be legally recognized.

Findings of Fact

289. Although Section 121 of the Foundation Statute provided that Section 3 relating to domicile could not be legally amended or rendered inoperative, under German law this restriction was not binding on the State.

290. Based on the decree of February 23, 1949, the Ministry of Education of Baden-Wuerttemberg issued a Certificate on May 7, 1949, stating that the domicile of the Carl Zeiss Stiftung was at Heidenheim and that Messrs. Bauersfeld, Kueppenbender and Henrichs were authorized, as members of the Zeiss Board of Management, to represent it and administer its affairs under Section 114 of the Statute.

291. The Certificate of May 7, 1949 was intended to give the members of the Heindenheim management evidence of their authority to act as the Zeiss Board of Management.

292. This document was thereafter in fact used to evidence the proper authority of Messrs. Bauersfeld, Henrichs and Kueppenbender to act as the Zeiss Board of Management.

293. The decree of February 23, 1949, recited that it was issued pursuant to Section 87 of the German Civil Code. Section 87 provides that if the fulfillment of a purpose of a foundation becomes impossible, the "appropriate authority" can either change the foundation's purpose or dissolve it. Section 87 also provides that in changing the purpose of a foundation the intention of the founder is to be taken into consideration to the extent possible, and it expressly authorizes the amendment of the statute of a foundation to the extent necessary to effect a change in its purpose.

294. While the German Civil Code did not come into effect until 1900, after the creation of the Carl Zeiss Founda-

tion, under Article 163 of the Law Introducing the Civil Code §§85 through 88 of the Code (including other Sections of the Code referred to therein) were made expressly applicable to existing foundations created prior to 1900.

295. Since 1900 German foundations, as contrasted with so-called Gotha mining companies, have been governed by, and regarded as creatures of, German federal law, even though the land authorities have been delegated the administrative task under the Federal Civil Code of approving foundation statutes, exercising general supervisory functions over foundations domiciled in their territories, and adopting supplementary regulations.

296. Under well-established principles of German constitutional law the administration of federal laws may be delegated to the "laender" or states, and when a state issues administrative acts in execution of federal law such acts are deemed to be acts of the federal government and as such are binding throughout the territory of Germany.

297. The state supervisory function may be used to enforce German federal law and make sure that the organs of a foundation comply with the provisions of such law.

298. The only state law relating to foundations domiciled in Thuringia was a Thuringian executive ordinance of May 16, 1923, entitled "Ordinance of Execution of the Civil Code". The preamble of the Ordinance of Execution recited that it was issued on the basis of a Thuringian law of March 20, 1923, relating to the issuance of ordinances executing federal law concerning the administration of justice in the provinces.

Findings of Fact

299. Thus in February 1949 the Carl Zeiss Foundation was governed by its Statute as interpreted under German federal law, by substantive provisions of the German Civil Code, and by local laws or ordinances implementing the Civil Code. It was, therefore, a German—and not a Thuringian—"national" or entity. The fact that the Province of Thuringia had adopted an executive ordinance implementing the Civil Code by designating which of the various provincial government agencies was to act as the "appropriate authority" within the meaning of §87 of the Civil Code did not have the effect of making a foundation domiciled in Thuringia a Thuringian "national".

300. In its commercial activities and relationships the Foundation was subject to the provisions of the German Commercial Code, which was adopted in 1897.

301. There was no provision of German law (federal or state) in effect in 1949 which prohibited a foundation from changing its domicile from one federal state, or land, to another.

302. As a German national legal entity the Foundation could change its statutory domicile from one federal state to another like any German corporation, and no provision of German law prohibited such a change.

303. Although there appears to be no German case decided prior to 1949 considering the question whether a new domicile for a foundation could validly be created pursuant to §87 of the German Civil Code, in its decision of July 31, 1954, the District Court of Stuttgart, in an action brought on April 28, 1954, by the Council of the District of Gera in its purported capacity as Special Board of the Foundation

against the Zeiss firm in Heidenheim, decided that the 1949 Wuerttemberg decree and certificate were not void for lack of jurisdiction.

304. Under the German Civil Code the power to dissolve a foundation, which is expressly granted by §87, encompasses the lesser power to create a new domicile where this is deemed necessary to effect a change in purpose.

305. At the time of the issuance of the 1949 administrative act the assets of Zeiss Opton GmbH as well as substantial assets of Zeiss Ikon AG were located in Wuerttemberg-Baden. The original Board of Management administered Zeiss Opton and the other Western assets of the Foundation from Heidenheim, and a substantial number of employees of the Foundation enterprises were located in Wuerttemberg. Thus the center of the industrial activities of the Foundation and the place from which those activities were administered were both located in Wuerttemberg.

306. Because the expropriations and the Resolution of the German Economic Commission of June 16, 1948, had eliminated the Foundation's industrial activities and governing organs in the Soviet Zone and had rendered the Foundation Statute inoperative there, the Foundation no longer had any administrative center or domicile in Jena.

307. Thus after June 1948 the domicile of the Carl Zeiss Foundation was *de facto* in Heidenheim and not in Jena.

308. Although generally the "appropriate authority" within the meaning of §87 of the German Civil Code and the authority exercising general supervisory powers over a foundation are government authorities of the state of statu-

tory domicile, German law also permits the authorities of the state of the *de facto* domicile of a foundation to exercise supervisory powers and take action to implement §87.

309. The Government of Wuerttemberg-Baden assumed jurisdiction with respect to the Carl Zeiss Foundation pursuant to §87 on the basis of the location in that state of the Foundation's administrative center, its industrial assets, and management and numerous employees of firms in which the Foundation owned an interest. The Government deemed it to be in the public interest to preserve the Carl Zeiss Foundation, and was persuaded that the Foundation could no longer continue to fulfill its statutory purposes in the Soviet Zone in view of the expropriation of its assets there and the elimination of its organs and the transfer of their powers to a State Commissioner.

310. Notice of the issuance of the Wuerttemberg Government's decree of February 23, 1949, apparently did not come to the attention of defendant VEB in Jena until some time in November 1951, when it was apprised of the decree in connection with a proceeding pending in the German Patent Office in Munich. However, there is no evidence that under German law defendant VEB was required to be notified either of the pendency of the application or the issuance of the administrative decree.

311. On May 22, 1954, the Minister of Education of Wuerttemberg issued a further administrative decree amending Section 3.of the Statute of the Carl Zeiss Foundation so as to eliminate reference to Jena as a legal domicile of the Foundation.

312. Under German law the administrative decrees of February 23, 1949, and May 22, 1954, and the certificate of

May 7, 1949, were valid and binding on all persons and agencies in the territory of the Federal Republic of Germany until and unless revoked by the issuing authority or set aside by a German administrative court.

313. The administrative decrees and certificates have never been revoked by the Wuerttemberg Government. On the contrary, in 1956 the Government confirmed their validity and binding effect.

314. There is no evidence that any administrative court of West Germany has ever declared the Wuerttemberg administrative decrees or Certificate invalid or void or set them aside.

315. The Wuerttemberg administrative decrees of 1949 and 1954 and the Certificate of May 1949 were attacked by the Council of the District of Gera in an action brought against the Government of Wuerttemberg in the Administrative Court in Stuttgart in October 1954. In a decision rendered on September 29, 1961, the Administrative Court dismissed the action on the ground that there was no Special Board within the meaning of the Statute existing any longer in Thuringia and that the Council of the District of Gera was not authorized to bring suit on behalf of the Foundation as its legal representative.

316. On April 9, 1964, the Administrative Court of Appeals of Baden-Wuerttemberg affirmed the decision of the Administrative Court of Stuttgart.

317. An appeal from the decision of the Court of Appeals was dismissed by the Supreme Federal Administrative Court on January 15, 1965.

Findings of Fact

318. The administrative decrees of 1949 and 1954 and the Certificate of May 1949 are no longer open to challenge before any administrative court in West Germany.

319. Consequently, the administrative decrees of 1949 and 1954 are fully valid and binding, and under German law they made Heidenheim the *de facto* domicile of the Zeiss Foundation, its legal domicile.

320. On August 3, 1967, the Parliament of the Federal Republic of Germany adopted legislation purporting to confirm the validity of measures taken by the Governments of the West German states to maintain or continue the existence in West Germany of foundations which had their legal domiciles as of May 8, 1945, in what later became the Soviet Zone, including measures taken to transfer such domiciles to West Germany, even though such measures might be in derogation of provisions of a Foundation's Statute.

321. The expropriation of the Foundation's assets in the Soviet Zone resulted in the elimination of the principal establishment of the Zeiss firm in Jena, and the firm name was cancelled in the Commercial Register at Jena on November 30, 1948.

322. Since the expropriations the principal establishment of the Zeiss firm has been at Heidenheim, to which the center of gravity of the Foundation's business enterprise carried on under the Zeiss firm name shifted simultaneously with the confiscation of its assets in the East.

323. On October 20, 1950, Messrs. Bauersfeld, Henrichs and Kueppenbender filed an application with the County

Court at Heidenheim for the entry of the firm Carl Zeiss in the Commercial Register of Heindenheim as an individual firm having its domicile at Heidenheim and the entry of the Carl Zeiss Stiftung, likewise domiciled in Heidenheim, as its owner.

324. The application also requested the entry of the names of Messrs. Bauersfeld, Henrichs and Kueppenbender as members of the Board of Management of the Zeiss firm, the name of Professor B.. ersfeld as Mandatory of the Carl Zeiss Foundation in matters of the Zeiss firm, and the name of Mr. Henrichs as Deputy Mandatory.

325. The application recited the expropriation of the assets used by the Foundation to carry on business under the firm name Carl Zeiss in the Soviet Zone. It also recited the existence of assets of the Carl Zeiss Stiftung in the Federal Republic, including the branch establishments of the Zeiss firm in Berlin, Hamburg and Cologne, and the intangible right to use the firm name Carl Zeiss.

326. The requested entries were made in the Commercial Register in Heidenheim on January 15, 1951.

327. By virtue of a resolution dated July 20, 1953, the assets of Zeiss Opton were merged with the assets of the Zeiss firm, and Zeiss Opton was liquidated.

328. Since October 1, 1953, the Zeiss firm has regularly used the trademark "Carl Zeiss" in a distinctive lens frame in connection with goods produced in West Germany and shipped to the United States.

329. In its decision of July 24, 1957, the Federal Supreme Court expressly determined that the enterprise conducted

under the firm name "Carl Zeiss" in Heidenheim and entered in the Commercial Register there pursuant to the application of October 20, 1950, was legally identical with the Foundation enterprise "Carl Zeiss" which had formerly been domiciled in Jena.

330. Plaintiff Zeiss Ikon AG was organized in September 1926 through the merger of a number of other stock corporations.

331. On October 4, 1926, it was registered in the Commercial Register of the County Court in Dresden, Saxony, Germany, where it had its principal place of business.

332. Since the organization of Zeiss Ikon AG, approximately two-thirds of its outstanding capital stock has been owned by the Carl Zeiss Foundation.

333. Since its organization Zeiss Ikon AG has engaged in the manufacture and sale of photographic equipment and related goods using trademarks consisting of the words "Zeiss Ikon", the words "Zeiss Ikon" in a distinctive lens frame, and other trademarks.

334. Goods produced by Zeiss Ikon AG in Germany and bearing the Zeiss Ikon trademarks have been continuously sold in the interstate commerce of the United States since 1926, except for the period 1941 to 1947.

335. In June 1947 the Ministry for Economics and Economic Planning of the Government of the Land of Saxony, located within the Soviet Zone of Germany, expropriated the enterprise Zeiss Ikon AG of Dresden without compensation, effective July 1, 1946.

Findings of Fact

336. The "Zeiss Ikon" trademarks were included in the expropriation.

337. At the time of the expropriation as well as on July 1, 1946, Zeiss Ikon AG owned and operated manufacturing plants in Stuttgart, Wuerttemberg, in the American Zone of Germany, and in West Berlin, which plants remained unaffected by the expropriation.

338. On March 3, 1948, a special meeting of the stockholders of Zeiss Ikon AG was held in Stuttgart in the American Zone of Germany at which a resolution was duly adopted transferring the domicile of Zeiss Ikon AG from Dresden in the Soviet Zone to Stuttgart.

339. The by-laws of Zeiss Ikon AG then in effect provided that meetings of stockholders could be held in Dresden, Berlin, Stuttgart or Jena.

340. An entry recording the transfer of domicile of Zeiss Ikon AG from Dresden to Stuttgart was made in the Commercial Register of the County Court in Stuttgart on August 18, 1948.

341. In a judgment rendered on February 14, 1958, in an action between plaintiff Zeiss Ikon AG and an East German People's Owned Enterprise calling itself "VEB Zeiss Ikon Dresden," the Federal Supreme Court of West Germany expressly upheld the validity of the transfer of domicile of plaintiff Zeiss Ikon AG from Dresden to Stuttgart.

342. The transfer of domicile of Zeiss Ikon AG was legal and effective under German law.

Findings of Fact

343. Thus, plaintiff Zeiss Ikon AG is identical with the corporation of that name organized in 1926 and domiciled in Dresden until its expropriation in 1947.

344. There is no evidence that after the Soviet expropriation of the Foundation's commercial assets and prior to April 24, 1950, anyone in Jena purporting to act on behalf of either defendant VEB Carl Zeiss Jena or any alleged Foundation in Jena claimed to have any rights with respect to trademarks formerly used in West Germany and elsewhere by the Zeiss firm.

345. Prior to the expropriations in June 1948 the Zeiss trademarks had, at all times, been registered in the name of, and used exclusively by, the Zeiss firm and formed a part of the assets owned by the Foundation in its capacity as proprietor of the firm.

346. In October 1949 a meeting took place among Messrs. Bauersfeld, Kueppenbender, Henrich, Hirsch, Schott, David and Sandmann, the central subject of which was the rights of the Carl Zeiss Foundation and of its enterprises in regard to trademarks and trade names outside the Soviet Zone.

347. In that meeting the Heidenheim management made it clear that in their view only they and not the expropriated works in the East were entitled to the Zeiss name and marks and that they were not willing to give up the good will of the firms symbolized by the trade names and trademarks. They offered, however, to permit the VEB in Jena to use the marks on the basis of a license agreement.

Findings of Fact

348. On February 17, 1950, Messrs. Bauersfeld and Kueppenbender (signing for the Zeiss firm) and Messrs. Henrichs, Hirsch and Schott (signing for the Schott firm) addressed a letter to VVB Optik (the association of State owned enterprises of which defendant VEB Carl Zeiss Jena then formed a part).

349. The letter claimed ownership, on behalf of the Foundation, of the firm names "Carl Zeiss" and "Jenaer Glaswerk Schott & Gen." and all registered trademarks, patents, copyrights and other industrial property used by the firms. The letter also claimed the right to prohibit infringing use of the trademarks and other industrial property and expressly reserved the right to do so with respect to use by the VVB Optik.

350. The letter proposed, *inter alia,* discussions looking towards a license agreement pursuant to which the state-owned Zeiss enterprise at Jena would be permitted to use the trademarks in the West.

351. On April 24, 1950, two letters prepared by Schacht were signed by Sandmann on behalf of the Foundation and sent to Heidenheim and Stuttgart. The first letter directed to Opton in Oberkochen took the position that the Zeiss Foundation still existed in Jena and had entered into agreements with Optik Carl Zeiss Jena VEB with regard to trademarks in the Western Zones, and did not recognize the Heidenheim claim for license fees.

352. Thereafter communications and correspondence relating to the licensing proposal were exchanged between Jena and Heidenheim during the years 1950 and 1951, and Mr. Henrichs met in West Berlin with Dr. Schrade

and Mr. Sandmann in July 1950 to discuss Heidenheim's licensing proposal.

353. The discussion did not result in any concrete agreement, but in June 1951 the Zeiss Board of Management in Heidenheim agreed, at defendant VEB's request, to extend the time of the latter to respond to the proposal.

354. Meanwhile, in August 1950 the Zeiss Board of Management in Heidenheim had applied to the newly reorganized German Patent Office in Munich for registration of the Zeiss trademarks in the name of the Zeiss firm in Heidenheim. Notice of the application came to the attention of defendant VEB in November 1951.

355. Late in 1950, on the occasion of a threatened seizure in Hamburg of a shipment of goods from VEB Zeiss in Jena, discussions took place between Dr. Schacht and officials of the Ministry of Machine Construction in East Berlin with respect to the possible revival of the Foundation in Jena for purposes of placing it in a position to claim trademark rights in the West.

356. It was the view of certain legal officers of the Ministry, as well as of Dr. Schacht, that the Foundation could be revived only by returning the confiscated assets of the Zeiss and Schott firms to the Foundation on the basis of its Statute.

357. Since this was deemed impossible because of its incompatibility with the Communist system of economic organization based on state ownership of the means of production, it was determined that an effort should be made to "warm up" the Foundation by re-establishing its govern-

ing bodies and appointing persons to fill various positions on them.

358. According to Dr. Richter, then Legal Advisor to the Minister of Machine Construction in East Berlin, the East German authorities considered the Foundation extinct and would not have given it any further thought if it had not been for the facts that the Zeiss Board of Management in Heidenheim in the West had claimed the trademarks and that Jena products bearing the marks were threatened with seizure in the West.

359. Since the Ministry of Education of Thuringia refused to act as the Special Board of the Foundation or make any appointments of other organs without receiving express instructions from the East German Government authorities in Berlin, a letter was dispatched on May 17, 1951, by the Minister of Machine Construction, Ziller, to the President of Thuringia instructing the latter to appoint Dr. Kunz as the new Foundation Deputy and to appoint Dr. Schrade, Mr. Sandmann and Dr. Harting as an "organ of the Carl Zeiss Stiftung" for Zeiss and Dr. Schrade, Mr. Dunger, Mr. Heintz and Mr. Klemm as an "organ of the Carl Zeiss Stiftung" for Schott. Dr. Schrade was described as Works Director and the other persons were described by titles which they held as employees of the VEBs.

360. The Ziller letter stated that the matter was urgent because the West was expected to file an action in the very near future.

361. Nothing contained in the Ziller letter indicated that Dr. Schrade or Mr. Sandmann was considered as then

holding any office in any organ of the Foundation or of its enterprises.

362. No governmental body in the Province of Thuringia had been exercising the functions of the Special Board in accordance with the Foundation Statute. The letter recited that all functions of the organs of the Foundation had been transferred to Professor Rompe in accordance with the Resolution of the German Economic Commission of June 16, 1948. In addition, the letter stated that the Ministry of the Interior had initially been asked to make the appointments of the Deputy and other organs, but that it had been pointed out that this would not be in accordance with the Foundation Statute and the request was, therefore, being directed to the President of Thuringia.

363. On May 29, 1951, a meeting was held at the Zeiss plant in Jena, the stated purpose of which was the "refilling of the organs of the Carl Zeiss Foundation."

364. The minutes of that meeting recite that it had been decided by the Ministry of Machine Construction and the Ministry of the Interior to make the organs of the Carl Zeiss Foundation again capable of functioning pursuant to the provisions of the Foundation Statute. The minutes also recite that the functions of the Special Board had again been assigned to the Ministry of Public Education of the Province of Thuringia, which had been instructed to make certain appointments.

365. On June 27, 1951, a letter was addressed by a Mr. Rudolph as representative of the Ministry of Education for the Province of Thuringia to Messrs. Schrade,

Sandmann, Dunger, Heintz and Klemm in Jena informing them that the Special Board of the Carl Zeiss Foundation had appointed them "as organ of the Carl Zeiss Foundation for the management of the industrial activity by virtue of paragraph 4 of the Foundation Statute, such appointment to take effect June 27, 1945."

366. There is no evidence that Dr. Harting ever received a letter of appointment. In 1951 Dr. Harting was already 80 years old and had been retired for many years. He died within a few months after the events of May and June 1951 and no one was appointed to replace him until April 1954. There is no evidence that he ever attended a Foundation meeting.

367. The purported appointment of June 27, 1951 was the first written appointment ever received by Dr. Schrade or Mr. Sandmann from any government agency purporting to be the Special Board of the Foundation.

368. The letter of June 27, 1951 spoke of appointment for the management of the "industrial activity" although as of that time the Foundation was not engaged in any industrial activity in Jena, nor did Dr. Schrade or the other appointees have any functions with regard to any industrial activity of the Foundation elsewhere.

369. The fact that the letter states that the appointment was retroactive to June 27, 1945, makes it clear that prior to June 27, 1951, no valid appointment of any kind had been made.

370. The formalities carried out in May and June 1951 in Jena were a mere sham for the purpose of giving defen-

dant VEB a legal basis for claiming the Zeiss name and marks in the event of litigation in the West.

371. After the "warning up" of the Foundation organs in May 1951 little effort was made by the East German authorities or defendant VEB to observe the requirements of the Statute regarding appointments to the various organs or to make use of the Foundation until after the outbreak of litigation between East and West in February 1964.

372. Thus, when Dr. Harting died in 1951, leaving Dr. Schrade and Mr. Sandmann as the only members of the so-called "Board of Management," no one was appointed to replace Dr. Harting, although this would have been required by Section 7 of the Foundation Statute, which provided that a replacement had to be appointed within one month.

373. When Mr. Sandman fled from Jena to the West in March 1953, leaving Dr. Schrade as the sole remaining member of the "Board of Management" and leaving the Foundation without a Mandatory or Deputy Mandatory for Zeiss, no new appointments were made.

374. Except for nominal representation in minor court proceedings, no steps were taken to have the Foundation assume control of such non-industrial property as it may have continued in its name in and around Jena. Such property continued to be administered and subsidized largely by the VEBs Schott and Zeiss and by the East German state or subdivisions thereof. It was not until 1953, in anticipation of the dispute between the parties, that any attempt was even made to separate the adminis-

trative functions relating to such property from the VEBs and to transfer them to the newly established "Foundation administration" in Jena.

375. On December 3, 1951, Messrs. Bauersfeld, Henrichs and Kueppenbender addressed a registered letter to Dr. Schrade in which they proposed that defendant VEB be permitted, subject to the right of revocation at any time and subject to the claims recited in the letter of February 17, 1950 to sell its products using the Zeiss marks outside the Soviet Zone through the West German Zeiss sales organization.

376. The letter stated that the license was to be subject to the agreement that in the event of any future disputes between the parties neither side would contend that by reason of the arrangement one party had forfeited its right to prohibit the other party from using such trademarks or to sue for infringement.

377. Messrs. Schrade and Sandmann instructed Dr. Schacht to discuss this matter with Mr. Chemnitz, head of the Central Administration at the Ministry of Machinery Construction, because they did not feel authorized to adhere to the conditions of the Heidenheim management without his consent.

378. Following such a discussion between Dr. Schacht and Mr. Chemnitz a letter was sent to Dr. Schrade by Mr. Chemnitz on February 25, 1952, advising Dr. Schrade that the East German Government deemed it expedient to adhere to the proposals laid down in the letter of December 3, 1951, from the Carl Zeiss Stiftung in Oberkochen, and Dr. Schrade was instructed to "proceed accordingly."

Findings of Fact

379. The Chemnitz letter provided the basis for a "modus vivendi" with Heidenheim through the tacit observance of the conditions set forth in the letter of December 3, 1951.

380. Thereafter until some time in 1953, with minor exceptions, products of the VEB were sold outside the Communist Bloc countries in accordance with the conditions laid down in Heidenheim's letter of December 3, 1951.

381. At the beginning of 1953 the Carl Zeiss firm in Heidenheim was advised that the sales of products produced in Jena by defendant VEB for export had been taken over by a state trading organization known as "DIA".

382. Upon receipt of this information Mr. Henrichs wrote to DIA stating that the Zeiss firm in Heidenheim was willing to permit DIA to use the Zeiss name and trademarks in connection with the goods produced by defendant VEB only if DIA accepted the conditions on which cooperation between the Heidenheim and Jena enterprises had been previously based. At the same time the Zeiss firm in Heidenheim addressed a circular letter to its foreign distributors, including Carl Zeiss, Inc., advising them of these facts.

383. Thereafter until approximately February 1954 correspondence was exchanged between Carl Zeiss in Oberkochen and DIA relative to the Zeiss firm's proposal, but no agreement was ever reached.

384. On February 12, 1954, the Zeiss firm in Heidenheim advised DIA that since the parties had failed to come to an agreement regarding the licensing proposal, the

Zeiss firm intended to take legal steps to protect its rights in the Zeiss name and trademarks.

385. On February 18, 1954, the Zeiss firm addressed a circular to all its foreign distributors, including Carl Zeiss, Inc., advising them of the termination of negotiations with DIA and instructing them to cease handling Jena products bearing the Zeiss marks and to cease using the Zeiss trademarks in connection with the promotion and sale of Jena products.

386. In February, 1954, the new trademark law of the German Democratic Republic (East Germany) was enacted and the registries were there reopened for trademark registration, the Zeiss marks being registered in the name of the Jena "Foundation" as owner.

387. On February 27, 1954, the Zeiss firm in Heidenheim obtained an injunction in the District Court in Goettingen enjoining the West German distributor of defendant VEB's products from selling or promoting such products bearing the Zeiss marks in West Germany.

388. On April 8, 1954, in anticipation of litigation in the West, a written agreement was entered into pursuant to which the purported Carl Zeiss "Foundation" in Jena purported to license defendant VEB to use the Zeiss trademarks. The agreement recited that it was intended to confirm an alleged oral license which had been granted in 1948, although the evidence establishes that no such oral license had ever been granted and that the trademarks had been expropriated in 1948 together with other industrial assets of the Foundation.

Findings of Fact

389. The purported license agreement did not provide for the payment of any royalties to the Jena "Foundation" nor were any royalties ever paid.

390. On April 10, 1954, written documents were executed by the Council of the District of Gera in its purported capacity as Special Board of the Foundation purporting to appoint Messrs. Mueller and Hueber "for the management of the industrial activity" of the Jena "Foundation". Similarly, a document was executed purporting to designate Schrade "to represent the Carl Zeiss Stiftung of Jena in accordance with Section 9 of the Statute as Mandatory of the Carl Zeiss Stiftung" effective retroactively as of March 16, 1953. These steps were taken in anticipation of, and in an effort to bolster Jena's legal position with respect to, a court action which Jena planned to commence in West Germany.

391. Shortly thereafter, on April 28, 1954, the Council of the District of Gera, a political subdivision of the East German State, purporting to act as Special Board of the Carl Zeiss Stiftung, brought an action in the District Court of Stuttgart, West Germany, against the Zeiss firm in Heidenheim and Messrs Bauersfeld, Henrichs and Kueppenbender.

392. In that action, the Soviet Zone plaintiff sought to have the entry of the Zeiss firm stricken from the Commercial Register in the County Court of Heidenheim; to have certain trademarks (including all the Zeiss trademarks in issue here) which were registered in the name of the Zeiss firm, transferred to and re-registered in the name of the Carl Zeiss Stiftung of Jena; and to enjoin the

individual defendants from purporting to act as the legal representatives of the Carl Zeiss Foundation.

393. On July 31, 1954, the District Court dismissed the action on the ground that the Council of the District of Gera was not the legal representative of the Carl Zeiss Foundation and therefore had no authority to bring the action.

394. The decision of the District Court of Stuttgart was affirmed by the Court of Appeals of Stuttgart on April 6, 1955.

395. On appeal to the Federal Supreme Court the decision was reversed and remanded to the Court of Appeals on January 28, 1958, for purposes of further findings and conclusions.

396. On October 29, 1958, the Court of Appeals again dismissed the appeal of the Council of the District of Gera from the judgment of the District Court of Stuttgart of July 31, 1954.

397. The judgment of the Court of Appeals of October 29, 1958, was affirmed by the Federal Supreme Court on November 15, 1960.

398. The Council of the District of Gera, through its attorneys, participated in all of the foregoing proceedings in the various West German courts.

399. In May 1954 the Zeiss firm in Heidenheim, represented by Professor Bauersfeld as Mandatory, commenced an action in the District Court in Duesseldorf against de-

fendants VEB and DIA for an injunction to prevent the two defendants from using the firm name "Carl Zeiss" or any similar name or the Zeiss trademarks in connection with the sale or promotion of products anywhere in the world.

400. The District Court granted judgment for plaintiffs enjoining defendants VEB and DIA from using the firm name "VEB Carl Zeiss Jena" in West Germany and West Berlin unless the words "VEB" and "Jena" were emphasized in such a way that the name Carl Zeiss became less conspicuous. It also enjoined them from using all of the trademarks except those newly registered after 1945, which are not involved here.

401. Both parties appealed and on January 13, 1956, the Court of Appeals entered a judgment expanding the injunction granted to the Zeiss firm to prevent defendant VEB from using not only the firm name VEB Carl Zeiss Jena but any other name containing the words "Zeiss" or "Carl Zeiss".

402. An appeal from the judgment of the Court of Appeals was dismissed, and the judgment was affirmed by the Federal Supreme Court on July 24, 1957. In its decision the Supreme Court determined that the Zeiss firm in Heidenheim was identical with the Zeiss firm formerly domiciled in Jena and that Messrs. Bauersfeld, Henrichs and Kueppenbender had never resigned as members of its Board of Management and were therefore alone authorized to represent the Foundation as proprietor of the firm.

403. Defendant VEB received notice of the institution of said action and participated in all of the court proceedings relating thereto through its attorneys.

Findings of Fact

404. Since February 1954 there has also been litigation with respect to the rights of the parties to the action in the Zeiss name and trademarks in various other countries throughout the world.

405. Since the establishment of the Federal Republic of Germany (West Germany) in 1949 the United States Government has recognized the Government of the Federal Republic.

406. On April 6, 1954, two days before the execution of the purported license from the Foundation to defendant VEB, at the request of the Government of East Germany, the East German Supreme Court rendered an advisory opinion to the government in which it stated that the Carl Zeiss Foundation continued to exist in Jena with the Council of the District of Gera as its Special Board; that the Zeiss and Schott Boards of Management had resigned prior to their departure from Jena; and that the decree of the Wuerttemberg Government of February 23, 1949, creating a new domicile of the Carl Zeiss Foundation in Heidenheim, was invalid. There is no evidence that any member of the Zeiss Board of Management in Heidenheim ever received notice of this opinion or that it was even communicated to them or published.

407. The East German Supreme Court's advisory opinion made no reference to any license agreement (see Finding No. 388) nor did it state that the Foundation had continued to own the Zeiss trademarks after the expropriation.

408. In December 1958 the Council of the District of Gera and defendant VEB brought an action in the District

Court of Leipzig in East Germany against the Zeiss firm in Heidenheim.

409. Notice of commencement of the action was sent to the Zeiss firm in Heidenheim but acceptance of the notice was refused and the envelope in which it was received was returned to the District Court in Leipzig unopened in February 1959 with a cover letter denying jurisdiction of the East German courts on the grounds that they were not legally constituted, and the Zeiss firm did not appear in the action or participate in any way.

410. In September 1959 a default judgment was entered by the District Court of Leipzig enjoining the Zeiss firm from using the trade name "Carl Zeiss" and the various Zeiss trademarks on goods sold in East Germany.

411. The District Court refused, however, to enjoin the use of the name "Carl Zeiss" in communications by the Zeiss firm addressed to public authorities in East Germany, and the Council and defendant VEB appealed.

412. There is no evidence that notice of the appeal was ever sent to the Zeiss firm in Heidenheim or that the Zeiss firm participated in any of the appellate proceedings.

413. In March 1961 the Supreme Court of East Germany affirmed the judgment of the District Court of Leipzig, modifying it to expand the injunction to include use of the firm name on all communications to East German public authorities.

414. The United States Government has never recognized the government of the German Democratic Republic

("DDR") as legitimately constituted and has refused to recognize the existence of an independent state in the Soviet Zone, but has treated the DDR as physically under the control of the Soviet Union although part of a single German state.

415. Since the creation of a new domicile in Heidenheim in 1949 the Carl Zeiss Foundation has continued to function in the spirit and tradition of the Abbe Statute, carrying out the purposes set forth in the Statute.

416. Since 1959 the Ministry of Education of Baden-Wuerttenmberg has been exercising the functions of the Special Board, which were transferred to it by the Zeiss and Schott Boards of Management in accordance with Section 114 of the Statute, subject to the agreement that if Germany is ever re-unified these functions would revert to the Boards of Management until such time as a new Special Board is once again created.

417. Since July 1959 Dr. Karl Bernard has been functioning as the Foundation Deputy.

418. The Zeiss and Schott firms have been and are operating profitably within the framework of the Abbe Statute and their profits have been and are being used in accordance with the purposes set forth in Section 1 of the Statute.

419. The Zeiss firm and Zeiss affiliated enterprises of the Foundation together employ more than 22,000 people and the Foundation ranks as one of the largest industrial enterprises in West Germany.

Findings of Fact

420. Thus, in every way, since 1949 and at present the intentions of Professor Abbe have been and are being carried out in the free part of Germany by Dr. Kueppenbender and his colleagues on the Zeiss Board of Management and by the other statutory organs of the Foundation.

421. The trademark "Zeiss" is the oldest of the trademarks used by the Zeiss firm, having first been adopted in 1846. It was first registered in the United States in the name of the firm of Carl Zeiss on February 12, 1912.

422. The trademark "Carl Zeiss Jena" in the distinctive lens frame was first adopted by the Zeiss firm in 1903 and was first registered in the United States in the name of the firm of Carl Zeiss on April 30, 1907.

423. The trademark consisting of the distinctive lens frame alone was first adopted by the Zeiss firm in 1902 and was first registered in the United States in the name of the firm of Carl Zeiss on June 23, 1914.

424. The trademark "CZ" was first adopted by the Zeiss firm in 1912 and was first registered in the United States in the name of the firm of Carl Zeiss on September 23, 1913.

425. On April 4, 1919, the United States Government purported to vest these various trademarks in the Alien Property Custodian.

426. Despite this vesting, the Carl Zeiss firm continued to use these trademarks in United States commerce until at least 1941.

427. The trademark "Zeiss Ikon" was first registered in the United States in the name of Zeiss Ikon AG on Septem-

ber 17, 1929. Additional registrations were issued on September 24, 1929 and April 15, 1930. On or about February 20, 1950, the United States Government purported to vest the "Zeiss Ikon" trademarks in the Attorney General.

428. Prior to 1925 goods manufactured by the Zeiss firm were sold in the United States through various independent distributors.

429. In 1925 or 1926 Carl Zeiss, Inc. was organized as a New York corporation and its stock was issued to the Carl Zeiss Foundation. Thereafter, until the end of 1941, goods manufactured by the Zeiss firm and Zeiss Ikon AG were primarily sold in the United States through Carl Zeiss, Inc.

430. On August 28, 1942, the United States Government vested all of the capital stock of Carl Zeiss, Inc. in the Alien Property Custodian. The stock remained so vested until December 30, 1960.

431. In 1947 Zeiss Ikon AG resumed the sale of its products in the United States. Until October 1965 such products were sold through Carl Zeiss, Inc. Since October 1965 they have been sold through Zeiss Ikon Voigtlaender of America, Inc., a subsidiary of Carl Zeiss, Inc.

432. Since World War II goods sold in the United States bearing the trademark "Zeiss Ikon" have emanated exclusively from Zeiss Ikon AG of Stuttgart.

433. After the expropriation of its assets in Jena in 1948 the Zeiss firm did not resume manufacturing optical instruments and related products until 1953. However, from 1949 until September 1953 optical instruments produced by Zeiss

Opton at Oberkochen and elsewhere were sold in the United States by Carl Zeiss, Inc.

434. Such goods bore, among others, trademarks consisting of the words "Zeiss Opton" in a distinctive lens frame identical with the one previously used by the Zeiss firm and by Zeiss Ikon AG, the distinctive lens frame alone, and the letters "Z" and "O" superimposed on each other.

435. Since 1953, when it resumed production in West Germany, the Zeiss firm in Heidenheim has sold in the United States primarily through Carl Zeiss, Inc., goods bearing, among others, trademarks consisting of the words "Zeiss", "Carl Zeiss" in the distinctive lens frame, the distinctive lens frame alone and (since 1956) the letters "C" and "Z" superimposed on each other.

436. In 1949 defendant VEB commenced to sell goods bearing the Zeiss trademarks in the United States through Carl Zeiss, Inc., which was then owned and controlled by the Attorney General. Some time in 1950 it ceased to sell such goods to Carl Zeiss, Inc. and commenced to sell them through defendants Steelmasters and Ercona.

437. During the period 1950 to 1961 defendants VEB sold products in the United States bearing one or more of the Zeiss trademarks through defendants Steelmasters and Ercona.

438. In 1948 and 1949 there was but a minimal volume of Zeiss trademarked goods imported into the United States from the Jena Works; approximately $13,000 (ex-factory) in the period 1948-1949; $45,000 in 1949-1950; approximately $160,000 (ex-factory) in 1950; $290,000 in

1951; $76,000 in 1952; $92,000 in 1953; $67,000 in 1954; $108,000 in 1955; $149,000 in 1956; $89,000 in 1957; $79,000 in 1958; $135,000 in 1959; $143,000 in 1960; and $129,000 in 1961. Defendants also engaged in some advertising of the Jena-produced Zeiss-marked goods in American trade, scientific and popular journals.

439. Since 1961 defendant VEB has been selling in the United States products bearing one or more of the Zeiss trademarks principally through defendant Ercona.

440. Since October 1961 defendant VEB has sold binoculars bearing the trademarks "Carl Zeiss Jena" and "Carl Zeiss Jena" in a distinctive lens frame to Trans-Atlantic Allied Corp., 565 Fifth Avenue, New York, New York, pursuant to a written agreement dated October 20, 1961.

441. From October 1964 until some time in 1966 defendant VEB sold geodetic and photogrammetric products bearing the trademarks "Carl Zeiss Jena" and "Carl Zeiss Jena" in a distinctive lens frame to William H. Cook, 3333 N. Street, N.W., Washington, D.C., pursuant to a written agreement entered into on or about October 29, 1964.

442. Both goods made by plaintiffs in West Germany bearing Zeiss trademarks and those made in Jena bearing Zeiss trademarks have generally conformed to the standards for Zeiss quality products.

443. Between 1950 and 1953 or 1954 the importation of goods manufactured by defendant VEB was consented to from time to time by the Attorney General as the registered owner of the Zeiss trademarks or by the vested Carl Zeiss, Inc. as his agent.

Findings of Fact

444. Beginning some time in 1953 or 1954 the Attorney General refused to consent to the further importation of such goods into the United States.

445. On April 4, 1956, an action was commenced in the United States District Court for the District of Columbia by defendants Steelmasters and Ercona against the Attorney General, the Secretary of the Treasury and the Commissioner of Customs.

446. In the action Steelmasters and Ercona sought to enjoin the United States Government from preventing the importation by them of goods manufactured by defendant VEB and bearing the trademark "Zeiss" on the ground that the mark had not been validly vested by the United States Government in 1919 because there was no business in the United States to which the mark was appurtenant.

447. Although the Zeiss firm in Heidenheim assisted the Attorney General by furnishing him with copies of certain pleadings and decisions from court actions pending in West Germany and other documents, it was not a party to the District of Columbia action and did not participate in any way in the conduct of the litigation.

448. On December 8, 1958, a judgment was entered in favor of Ercona and Steelmasters directing the Commissioner of Patents to rectify the trademark registed by deleting all reference to the Attorney General or to the Chemical Foundation as the owner or registrant of the trademark "Zeiss".

449. The Government was also enjoined from interfering with the importation by Ercona and Steelmasters of any goods manufactured by defendant VEB bearing the trademark "Zeiss".

Findings of Fact

450. The District Court expressly stated that "the respective rights, if any, in the 'Zeiss' trademark of the several Carl Zeiss firms now located in East Germany and in West Germany are not in issue in this case; and the Court expresses no opinion with respect thereto. Nor are the decisions rendered by foreign courts with respect to such rights relevant here," and in his brief on appeal to the United States Court of Appeals for the District of Columbia Mr. Rand, representing defendants Steelmasters and Ercona, argued that the respective claims of Heidenheim and Jena to the United States trademarks had no relevance to the case.

451. On March 17, 1960, the judgment of the District Court was affirmed by the United States Court of Appeals for the District of Columbia. In affirming the judgment the Court of Appeals noted that the respective claims of Heidenheim and Jena were not in issue.

452. The stock of Carl Zeiss, Inc. remained under the control and ownership of the United States Government from August 1942 until December 30, 1960, when the Government sold the stock to the Zeiss firm in Heidenheim. Defendant Ercona had unsuccessfully sought to purchase the vested stock.

453. In authorizing the sale of the stock of Carl Zeiss, Inc. to the plaintiff Zeiss firm in Heidenheim, the Attorney General, acting on behalf of the President of the United States, stated the view of the United States Government that, consistent with the foreign policy interests of the United States and in order that the American consumer not be confused or misled, only the Carl Zeiss Foundation in West Germany should be recognized as the legitimate Carl Zeiss Foundation and its operating firms as the producers of genuine Zeiss products.

Findings of Fact

454. On or about June 9, 1961, the purported Carl Zeiss Stiftung in Jena and defendant VEB purported to assign certain trademarks, including the trademarks "Zeiss", "Carl Zeiss Jena" in a distinctive lens frame and "CZ" to defendant Ercona pursuant to a written instrument of assignment.

455. Despite a request by defendant Ercona to the Attorney General of the United States in 1961, none of the defendants has, at any time, ever obtained any authorization from the Attorney General to transfer or assign any trademarks, or rights or interests therein or relating thereto, to any person or firm in the United States, nor has any of them obtained any authorization from the Attorney General to exercise any right, power or privilege with respect to any such trademark or rights or interests therein or relating thereto.

456. Commencing in 1953, plaintiff Carl Zeiss firm of Heidenheim and plaintiff Zeiss Ikon AG filed applications for registration of trademarks with the United States Patent Office as follows:

Mark	*Applicant*	*Serial No.*	*Date*
The words "Carl Zeiss" in a distinctive lens frame	Plaintiff Carl Zeiss	657,816	December 10, 1953
"Zeiss"	Plaintiff Carl Zeiss	36,037	August 21, 1957
"Zeiss"	Plaintiff Carl Zeiss	36,035	August 22, 1957
"Zeiss Ikon"	Plaintiff Zeiss Ikon	49,329	April 8, 1958

Findings of Fact

457. Oppositions to these applications for registration were filed in the United States Patent Office by defendant Ercona, but no such opposition was filed by either the so-called Carl Zeiss Stiftung in Jena or defendant VEB.

458. There is no evidence that either the purported Carl Zeiss Stiftung in Jena or defendant VEB has ever applied for registration in the United States of any of the trademarks involved in this suit or taken any other steps in the United States to protect their alleged respective rights in such marks.

459. On October 17, 1961, a registration of the trademark "Zeiss" was issued by the United States Patent Office to the plaintiff Carl Zeiss firm of Heidenheim for use on electric generators and related equipment.

460. On February 13, 1962, a registration of the trademark "Zeiss Ikon" was issued by the United States Patent Office to plaintiff Zeiss Ikon AG of Stuttgart for use on photographic equipment.

461. A petition for cancellation of the registrations set forth in Findings Nos. 459 and 460 was filed in the United States Patent Office by defendant Ercona, but no such petition was ever filed by the purported Carl Zeiss Stiftung in Jena or by defendant VEB.

462. In 1962 and 1963, pursuant to legislation adopted by the United States Congress, all of the Zeiss Ikon trademarks involved in this litigation, which had previously been vested by the United States Government, were returned to Zeiss Ikon AG of Stuttgart.

Findings of Fact

463. Since the post-war resumption of its sales in the United States, goods manufactured by Zeiss Ikon AG in West Germany have been actively promoted and sold by Carl Zeiss, Inc. (and since 1965 by Zeiss Ikon-Voigtlaender of America) throughout the United States.

464. The total volume of such sales since the war has been $41,445,032 for the period through 1966, and in fiscal 1966 the dollar volume of such sales was $1,678,515.

465. In advertising and promoting goods manufactured by plaintiff Zeiss Ikon, Carl Zeiss, Inc. and Zeiss Ikon-Voigtlaender of America consistently indicated that such goods originate in West Germany.

466. The volume of Zeiss Opton products sold in the United States during the period 1949-1953 was approximately $654,021.

467. In connection with its promotion and advertising of Zeiss Opton's products, Carl Zeiss, Inc. consistently indicated that such products emanated from West Germany.

468. During the period October 1, 1953, until September 30, 1966, sales of products of the Zeiss firm of Heidenheim bearing the various Zeiss trademarks referred to in Finding No. 435 by Carl Zeiss, Inc. in the United States totalled $56,803,069, and Carl Zeiss, Inc. expended $5,893,498 in advertising and promoting the names "Carl Zeiss", "Zeiss" and "Zeiss Ikon" and the products manufactured by plaintiffs bearing the various trademarks in issue here.

469. In connection with all such advertising and promotion, Carl Zeiss, Inc. has consistently indicated that prod-

ucts bearing the trademarks "Zeiss", "Carl Zeiss" and "Zeiss Ikon" emanating exclusively from West Germany.

470. The mark "Carl Zeiss" in a distinctive lens frame was not used at all on any significant quantities of goods prior to October 1, 1953; it then first began to be used regularly on Heidenheim-Oberkochen goods.

471. The marks "Carl Zeiss Jena" and the words "Carl Zeiss Jena" in the distinctive lens frame have been used only by the Jena enterprise.

472. In advertising goods manufactured by defendant VEB bearing the trademark "Carl Zeiss Jena" in a lens frame, defendant Ercona has, as a general rule, not identified the geographic origin of the products. On the goods themselves the word "Germany" alone is engraved to designate the origin.

473. The total volume of goods produced by defendant VEB and sold by Ercona in the United States during the 19 years from 1948 to 1966 amounts to $6,709,491, or an average of less than $350,000 a year. Since 1957 the annual volume of such sales has been less than $300,000.

474. From 1950 through 1963 the annual dollar volume of defendant VEB's sales ex-factory to Steelmasters and Ercona has exceeded $150,000 in only one year, 1951, when sales were $290,000, and has been less than $100,000 in seven of the remaining 13 years.

475. Since 1949 the word "Jena" has never appeared in any of the advertising or promotional material emanating from Carl Zeiss, Inc. and relating to goods manufactured

by Zeiss Opton and the Zeiss firm at Oberkochen and elsewhere in West Germany.

476. There is no evidence that the American consuming public associates the word "Jena" with the name "Zeiss" or "Carl Zeiss" or has any expectation that Zeiss goods which they purchase are manufactured exclusively in Jena.

477. Since prior to 1945 goods bearing the trademark "Zeiss Ikon" in a distinctive lens frame have been manufactured exclusively in locations other than Jena.

478. Goods bearing the trademarks "Carl Zeiss", "Zeiss Opton", "Zeiss Aerotopo" and "Zeiss Winkel" in the same distinctive lens frame have been manufactured in Western Germany but not at Jena and have been sold in the United States during various periods since 1949.

479. Confusion and mistake has resulted among members of the consuming public in the United States from the sale of competing products by plaintiffs and defendants bearing substantially identical trademarks.

480. This confusion and mistake has resulted in part from ignorance as to the existence of two independent sources for Zeiss products sold in the United States and in part from ignorance as to whether certain Zeiss products have emanated from plaintiffs or from defendant VEB.

481. The continued sale by defendants of goods in the United States bearing the various "Zeiss" trademarks or any other marks of which the words "Zeiss", "Carl Zeiss", the distinctive lens frame, or the initials "CZ" form a part, and the use of the trade name "VEB Carl Zeiss Jena" or

any other trade name containing the words "Zeiss" or "Carl Zeiss" in connection therewith, will probably result in continued confusion, mistake and deception on the part of members of the public and the trade in the United States.

s/ WALTER R. MANSFIELD
U.S.D.J.

Dated: November 7, 1968.

S-127

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

62 Civ 850

(#35694—Filed March 12, 1969—4:40 P.M.)

CARL ZEISS STIFTUNG, doing business under the name and style of CARL ZEISS; and ZEISS IKON A.G.,

Plaintiffs,

—against—

V.E.B. CARL ZEISS, JENA; STEELMASTERS, INC.; ERCONA CORPORATION; EXAKTA CAMERA COMPANY, INC.; and CAMERA SPECIALTY COMPANY, INC.,

Defendants,

CARL ZEISS, INC.,

Additional Defendant on Counterclaims.

Findings of Fact with Respect to Antitrust Misuse Defense

APPEARANCES

(Omitted)

MANSFIELD, D.J.

1. The various "Zeiss" and "Zeiss Ikon" trademarks are world-renowned and valuable, and identify various scientific instruments and optical goods as manufactured by plaintiffs according to their traditional high quality standards.

Findings of Fact with Respect to Antitrust Misuse Defense

2. Neither plaintiffs nor Carl Zeiss, Inc. (Zeiss, N.Y.) nor Zeiss Ikon Voigtlaender of America, Inc. (ZIV, Inc.) used or are using the "Zeiss" or "Zeiss Ikon" trademarks to violate the antitrust laws in the United States.

3. There is no evidence of any agreement or any communication or discussion between Zeiss, N.Y. or ZIV, Inc. and any of their respective dealers relating in any way to the use of any of the "Zeiss" or "Zeiss Ikon" trademarks. The evidence is that references in such communications and discussions to "Zeiss" instruments and "Zeiss Ikon" products were to products manufactured by plaintiffs and not to any of the "Zeiss" or "Zeiss Ikon" trademarks.

4. While the "Zeiss" and "Zeiss Ikon" trademarks are world-renowned and valuable trademarks, there is a failure to establish by a fair preponderance of the evidence that they were used by either of the plaintiffs, or by Zeiss, N.Y. or ZIV, Inc., as a means of coercing American dealers to engage in any anti-competitive activities.

5. Dealers have accepted dealerships from Zeiss, N.Y. and ZIV, Inc. because they wish to have the opportunity to sell products manufactured by plaintiffs.

6. The sales of defendant Ercona for the year 1956 were approximately $149,000, in 1955 Ercona was permitted to use the trademarks, and sales were approximately $108,000. After 1956 the figures were $89,000 in 1957; $79,000 in 1958; $135,000 in 1959; $143,000 in 1960; $129,000 in 1961. In the years prior to 1956 there were considerable fluctuations in the volume of sales by Ercona.

Findings of Fact with Respect to Antitrust Misuse Defense

7. During the period from approximately 1956 to 1959 defendants sold goods in the United States manufactured by V.E.B. Carl Zeiss Jena from which the Zeiss trademarks had been obliterated and on which only the symbol "CZJ" appeared. Prior to 1956 and after 1959 instruments bearing the Zeiss trademarks were sold by Ercona in the United States. A comparison of Ercona's volume of sales of such instruments for the entire period fails to show any causal connection between the Zeiss trademarks and Ercona's sales volume. The annual sales volume fluctuated up and down from year to year, revealing that two of the years (1956, 1959) in which the marks were obliterated produced a greater annual volume than five of the years (1952-1955 and 1961) in which the marks were on the instruments.

8. Neither Zeiss, N.Y. nor ZIV, Inc. has offered to sell unmarked instruments to dealers who refuse to enter into a dealership agreement, or offered to sell instruments bearing the Zeiss trademarks on one basis and untrademarked goods on another.

9. After appraising the testimony of two dealers (Rosenberg and Watson) with respect to the significance of Zeiss trademarks in the sale of Zeiss-manufactured instruments, and appraising their demeanor, the Court finds itself unable to extend any weight to their testimony as probative on the issue of alleged antitrust misuse of the Zeiss trademarks. Rosenberg, the operator of a small curiosity shop dealing almost entirely (98%) in used merchandise consisting principally of art, paintings and bric-a-brac, never has been a Zeiss dealer and his testimony with respect to Zeiss trademarks is rejected as weightless and unconvinc-

ing. Watson, a dealer in Zeiss-manufactured instruments, testified that he regarded himself as a poor witness with respect to what the Zeiss trademarks meant to others; that while he would not purchase Zeiss instruments without trademarks on them he had never been offered such instruments; and that he would be willing to sell instruments bearing the legend or label "Manufactured by Carl Zeiss Germany" without a Zeiss trademark. At no time did any representative of plaintiffs or Zeiss, N.Y. or ZIV, Inc. ever discuss the Zeiss trademarks with him.

10. Federal government agencies on occasion have made invitations to bid specifying "Zeiss" instruments "or equivalent" and describing the instruments sought. There is no evidence that such specifications could be filled solely by instruments bearing any of the Zeiss trademarks which are the subject of this action.

11. Neither of the plaintiffs was ever a party to any agreement with defendant V.E.B. or anyone else whereby the Zeiss or Zeiss Ikon trademarks in the United States would be licensed as part of any cartel dividing the world market for Zeiss products. Although, as the Court has already found (see Findings Nos. 375-383) the Jena and Heidenheim gentlemen communicated in 1951 with respect to a possible licensing agreement and the Jena gentlemen during 1952 until sometime in 1953 tacitly indicated the possibility of reaching such a license agreement, no such arrangement was ever consummated. (Finding No. 383 and Decision of Nov. 7, 1968, p. 144) In any event, as the Court has already found (see Decision pp. 136-137), §5(b) of the Trading with the Enemy Act would have rendered any such license ineffective.

Findings of Fact with Respect to Antitrust Misuse Defense

12. Plaintiff Carl Zeiss Stiftung owns 100% of the shares of Zeiss, N.Y., a New York corporation. None of the current officers of Zeiss, N.Y. is presently an officer or employee of plaintiff Carl Zeiss Stiftung. Of the five directors of Zeiss, N.Y., one, Dr. Kuehn, Chairman of the Board, is a member of the Board of Management of the plaintiff Carl Zeiss Stiftung and general manager in charge of sales for that enterprise. Another director, Dr. Lehmann, is in charge of sales of scientific instruments for plaintiff Carl Zeiss Stiftung. Another director and the president of Zeiss, N.Y., Mr. Kessler, was employed by plaintiff Carl Zeiss Stiftung from 1953 until 1962 when he came to New York. Dr. Skoludek, a director and executive vice-president of Zeiss, N.Y., was in charge of sales at Carl Zeiss Cologne before assuming his duties in New York in 1965.

13. Zeiss, N.Y. is the sole authorized importer and distributor in the United States of all scientific instruments manufactured and sold for export to the United States by the plaintiff Carl Zeiss Stiftung, except for geodetic instruments and spectacle lenses bearing the Zeiss trademarks which are distributed in the United States by Keuffel & Esser and Transcontinental Corp., respectively, American companies in which neither Zeiss, N.Y. nor plaintiff Carl Zeiss Stiftung has any interest. It purchases goods for its own account from plaintiff Carl Zeiss Stiftung at the same prices at which said plaintiff offers such goods for sale to its other distributors in Germany and elsewhere, including distributors who are not affiliated with said plaintiff, and resells such goods to dealers and other purchasers in the United States.

Findings of Fact with Respect to Antitrust Misuse Defense

14. Zeiss, N.Y. distributes goods other than those manufactured by plaintiff Carl Zeiss Stiftung, including spectrophotometers manufactured by RSV, a German firm, bearing the trademark "RSV", and in the past has also sold goods manufactured by other firms bearing trademarks other than the "Zeiss" trademarks.

15. Plaintiff Carl Zeiss Stiftung acquired a majority of the shares of Voigtlaender A.G., a German camera manufacturer, in 1956. Thus both Voigtlaender A.G. and plaintiff Zeiss Ikon A.G. were subsidiaries of plaintiff Carl Zeiss Stiftung in October 1965, when Zeiss Ikon Voightlaender Vertriebsgesellschaft, M.b.H., was organized in Germany for the joint marketing of Zeiss Ikon and Voigtlaender photographic equipment, and when Zeiss Ikon Voigtlaender of America, Inc. was organized to engage in such marketing in the United States.

16. ZIV, Inc. is a New York corporation, the stock of which is owned as follows: 80% by Zeiss, N.Y., 10% by plaintiff Zeiss Ikon A.G., and 10% by Voigtlaender A.G. None of the officers or directors of ZIV, Inc. is an officer or director of either of the plaintiffs, except that Dr. Goessler, a member of the board of directors of ZIV, Inc., is an officer of plaintiff Zeiss Ikon, and another member, Mr. Kessler, is the president of Zeiss, N.Y. The president of ZIV, Inc., who is also a director, Mr. Peerschke, was an officer of Zeiss, N.Y. before he became president of ZIV, Inc. Mr. Breford, the vice-president of ZIV, Inc., was likewise a Zeiss, N.Y. officer before he assumed the vice-presidency of ZIV, Inc.

Findings of Fact with Respect to Antitrust Misuse Defense

17. ZIV, Inc. purchases cameras and other photographic equipment from Zeiss Ikon Voigtlaender of Germany for its own account and resells such products to its dealers in the United States.

18. Both Zeiss, N.Y. and ZIV, Inc., respectively, themselves:

(a) pay the salaries of all their employees;

(b) keep their own separate books and records at their offices in New York;

(c) prepare their own financial statements and tax returns separate and apart from those of plaintiffs;

(d) pay their own operating expenses;

(e) have their own pension plans and health insurance plans for the benefit of their employees, underwritten by an American insurance company; and

(f) have their own bank accounts with banks in the City of New York and from time to time obtain loans from such banks for the financing of their businesses.

19. Neither Zeiss, N.Y. nor ZIV, Inc.:

(a) has received any loans from either of the plaintiffs; or

(b) has consulted with either of the plaintiffs or with Zeiss Ikon Voigtlaender of Germany prior to appointing dealers, terminating dealers, establishing prices, determining discounts or bidding on public contracts in the United States.

Findings of Fact with Respect to Antitrust Misuse Defense

20. Neither of the plaintiffs has any office in the United States.

21. Dr. Kuehn, who is Chairman of the Board of Directors of Zeiss, N.Y. and a member of the Board of Management of plaintiff Carl Zeiss Stiftung, maintains no office in the United States and visits the United States approximately once a year.

22. Dr. Kuehn, as Chairman of the Board of Directors of Zeiss, N.Y. and a representative of its sole shareholder, Carl Zeiss Stiftung, has from time to time set general policies for the management of Zeiss, N.Y., but has not exercised direction or control over its competitive practices, sales prices, or distribution activities.

23. Zeiss, N.Y. has made some reports to plaintiff Carl Zeiss Stiftung with respect to the market conditions in the United States for Zeiss instruments. Each month Zeiss, N.Y. sends financial statements to the Carl Zeiss Stiftung, and Zeiss, N.Y. has made annual reports to plaintiff Carl Zeiss Stiftung which contained information about competitors' instruments and the United States market. Zeiss, N.Y. also sends copies of its price lists to plaintiff Carl Zeiss Stiftung.

24. The president of Zeiss, N.Y. visits Oberkochen approximately twice a year and there discusses with plaintiff Carl Zeiss Stiftung's employees the general market situation in the United States. Other officers and key employees of Zeiss, N.Y. also travel to Germany and representatives of plaintiff Carl Zeiss Stiftung likewise periodically visit Zeiss, N.Y.

Findings of Fact with Respect to Antitrust Misuse Defense

25. ZIV, Inc. furnishes statements of its financial condition to Zeiss Ikon A.G. and Voigtlaender A.G. monthly at the plant. These monthly reports contain information about conditions in the United States market, including the competition and the prices of competing goods.

26. There were, during 1965, discussions between representatives of ZIV, Inc. and a Mr. Ellenbogen of Wall Street Camera with respect to the advertisement of Zeiss Ikon cameras by Wall Street Camera at a price below the retail price suggested by ZIV, Inc. No specific reference to the Zeiss trademarks were made during these discussions, but Mr. Ellenbogen was advised that it was thought that his advertising impaired the good will of Zeiss Ikon cameras. Although Wall Street Camera has upon occasion since 1965 advertised Zeiss Ikon cameras at less than the suggested retail prices, it has continued to be supplied with its requirements of Zeiss Ikon cameras by ZIV, Inc. ZIV, Inc. instituted a fair trade policy in New York in May 1965.

27. ZIV, Inc. has reported to Zeiss Ikon A.G. that Zeiss Ikon trademarked cameras have been imported into the United States by unauthorized importers and sold here by dealers at prices below the suggested resale prices published by ZIV, Inc.; and ZIV, Inc. has requested Zeiss Ikon A.G.'s aid in cutting off German distributors who sell to such unauthorized importers.

/s/ WALTER R. MANSFIELD
U.S.D.J.

Dated: March 12, 1969.